

# FINANCIAL TIMES

Algeria

Islamists balk at Zeroual's proposals

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UK under Labour

The fiscal cupboard will remain bare

Martin Wolf, Page 12

Today's surveys

Ghana  
Romania

Separate sections

## Sumitomo plans to diversify with satellite TV launch

Sumitomo Corporation, the Japanese trading group, is to launch what it says will be the world's first quadrilingual television station. It will broadcast Japanese-produced entertainment programmes to 10 Asia-Pacific countries from January on Jet TV, a 24-hour channel to be based in Singapore. Viewers will be able to choose from Japanese, Thai, Chinese and English by touching a button on a handset. Sumitomo's move into foreign broadcasting is the latest diversification by Japanese trading houses keen to find more profitable ventures. Page 15

**Wiretap scandal erupts in France** A new political scandal broke out in France after the defence ministry admitted ordering wiretaps on two senior aides to former defence minister François Léotard. Page 14

**Russian bank goes into administration** The Russian central bank took over one of the country's largest banks, providing fears that the nation's fragile banking sector could be on the verge of a wider crisis. Tveruniversbank will be under the central bank's administration until September 1, when the authorities will review its position. Page 5

**Confrontation in Ulster** Unionist politicians threatened to withdraw from the all-party Ulster peace talks over a stand-off between Protestants and police in Fortadown, Northern Ireland. Page 8

**Turkish coalition wins confidence vote** Turkey's parliament confirmed Necmettin Erbakan in office as the country's first Islamist prime minister. The coalition of Mr Erbakan's Islamic party Refah and the centre-right True Path party was approved by 13 votes in the 550-member parliament. One politician who voted against the coalition was punched by a colleague. Page 14

**GM appoints distributors in Japan** Saturn, the US carmaker established by General Motors in the 1980s to meet the challenge of low-cost Asian competition, appointed its first six distributors in Japan. Page 14

**Delta urges block on BA-American link** Delta Air Lines became the first large US carrier to call for the proposed alliance between British Airways and American Airlines to be vetoed. Page 4; Personal View, Page 15

**Call to arrest Karadzic** The US official in charge of overseeing Bosnia's forthcoming elections urged Nato to arrest Bosnian Serb leader Radovan Karadzic and other members of his community who are wanted for war crimes. Page 2

**Attack at UK infants' school** Three children and four adults were injured when a man with an axe or machete burst into an infants' school in Wolverhampton, central England. Police were last night hunting the attacker. The incident came less than four months after the Dunblane tragedy in Scotland in which 15 pupils were killed.

**Herod's name found on 2,000-year-old jug** The remains of a 2,000-year-old clay wine jug inscribed with the name of King Herod have been discovered, Israeli archaeologists said. Herod was king of Judea from 37 BC until his death in 4 BC.

**Tennis: Fifteen-year-old Martina Hingis, from Switzerland, became the youngest player to win a Wimbledon title when she and Czech-born Helena Sukova beat Meredith McGrath of the US and Larissa Neiland in the women's doubles.**

**Crickets: England were poised for a draw against India after they finished on 500 for 7 at the end of the fourth day of the third Test at Nottingham, giving them a 29-run lead over the visitors.**

**Aids activists protest at conference:**



AIDS activists protesting before the opening of the Eleventh International AIDS Conference in Vancouver, Canada. They called for the organisers of researchers and drugs companies to be tempered with realism. The conference was told the number of people infected with the AIDS virus worldwide is expected to double by 2000, with a huge increase likely in India. Early use of new AIDS drugs urged. Page 4; Editorial Comment, Page 13

STOCK MARKET INDICES			
FT-SE 100	3,741.5	(-1.7)	
Yield	4.98		
FT-SE European 100	1,595.42	(-13.93)	
FT-SE-A All-Share	1,994.78	(-10.25)	
Nikkei	21,924.94	(-307.48)	
New York headline	5,591.83	(-3.59)	
Dow Jones Ind Ave	5,591.83	(-3.59)	
S&P Composite	698.92	(-0.92)	
US DOLLAR RATES			
Federal Funds	5.75		
3-mo T-bill	5.25		
Long Bond	8.50		
Yield	7.16		
LONDON MONEY			
3-mo interbank	5.75		
Life long gilt	8.50		
NORTH SEA OIL (Argus)			
Brent Dated	119.50	(20.1)	
Y	119.50	(116.99)	
GOLD			
New York Comex (Aug)	329.21	(32.5)	
London	329.15	(31.65)	
STERLING			
New York headline	1.5295		
London	1.5295	(1.5551)	
DM	2.3746	(2.3751)	
FF	8.9396	(8.9396)	
SP	1.9835	(1.9824)	
Y	172.25	(172.42)	
2 index	85.7	(85.7)	
DOLLAR			
New York headline	1.52775		
DM	1.52775		
FF	5.1722		
SP	1.29485		
Y	116.995		
London	1.52775	(1.528)	
DM	1.52775	(1.528)	
FF	5.1722	(5.169)	
SP	1.29485	(1.2919)	
Y	116.995	(116.995)	
2 index	85.7	(85.7)	
YEN			
New York Comex (Aug)	111.5		
London	111.5		
YEN			
LEK 220	Germany	DM100	1.52775
LEK 220	France	FF100	8.9396
LEK 220	Italy	LI100	1.3663
LEK 220	Spain	PT100	166.67
LEK 220	UK	£100	1.52775
LEK 220	Japan	¥100	111.5
LEK 220	Canada	C\$100	0.67
LEK 220	Australia	A\$100	0.67
LEK 220	South Africa	R100	13.75
LEK 220	India	Rs100	47.83
LEK 220	China	Y100	8.27
LEK 220	Indonesia	Rp100	1,527.75
LEK 220	Malaysia	RM100	2.3746
LEK 220	Philippines	P100	47.83
LEK 220	Singapore	S\$100	1.3663
LEK 220	Thailand	THB100	54.78
LEK 220	Turkey	TL100	1.3663
LEK 220	USA	\$100	1.52775

Efforts to meet Maastricht deficit limit intensified in draft budget

## Bonn plans 2.5% spending cuts

By Peter Norman in Bonn

The German federal government plans to cut spending in 1997 for the third year in succession as part of its intensifying efforts to bring the country's public sector deficit below the limit set by the Maastricht treaty.

The draft budget, to be presented tomorrow to the cabinet by Mr Theo Weigel, the finance minister, envisages a 2.5 per cent drop in federal spending to DM440.2bn (\$288.6bn) next year from a planned DM451.3bn this year and a decline in Bonn's net borrowing requirement to DM56.5bn from DM59.3bn.

Mr Weigel will tell his col-

leagues that the federal government will fulfil the promise made in April to cut existing spending plans by DM25bn next year as part of its programme of spending reductions, supply side reforms and welfare restructuring to boost growth and jobs. The cabinet meeting will set the seal on negotiations between the finance ministry and spending ministries on DM7bn of departmental cuts left vague in the April package.

Bonn is aiming to bring Germany's overall deficit down to 2.5 per cent of gross domestic product next year and no below the 3 per cent Maastricht ceiling. But success will depend crucially on

whether the federal states or Länder can produce a total of DM25bn of budget cuts through their individual efforts after failing last week to agree a joint austerity programme. Yesterday, EU finance ministers meeting in Brussels received an assessment by each member country's prospects for qualifying next year for monetary union. It warned that Germany, among others, would have to take additional steps to reduce its public debt and deficit.

Details of the 1997 draft federal budget were circulating unofficially in Bonn yesterday. Cuts are envisaged in 18 of 26 individ-

ual spending plans next year, with the ministries of economics, transport, defence and agriculture accounting for DM4bn of the DM7bn of cuts negotiated in recent weeks. The transport budget is set for a particularly sharp fall to DM45bn in 1997 from a planned DM51bn this year, although investments should be protected because of increases in other revenues including asset sales. Defence, the subject of a well publicised tussle between Mr Weigel and Mr Volker Rühe, the defence minister, will see its budget cut to DM46.5bn next year from the DM48.2bn set aside in recently published plans for this

year. The budget of Mr Günter Rexrodt, the economics minister, who left an intensive care ward yesterday six weeks after contracting malaria, will decline by 8.4 per cent to DM17bn from DM18.6bn planned for this year. The labour and social affairs ministry remains the biggest federal spender by far next year, although its budget is set to decline to DM122.1bn from a planned DM124.6bn in 1996. Increased spending will mainly cover the growing costs of the planned move of Germany's government from Bonn to Berlin.

Continued on Page 14  
A knife to spending, Page 2

## UK to probe alleged breach of EU beef ban

By Neil Buckley in Brussels, Alison Maitland in London and Michael Lindemann in Bonn

The European Union agriculture commissioner said yesterday that he was taking "very seriously" reports that UK beef destined for destruction because of the export ban had circumvented controls and been found in Italy.

Mr Franz Fischler, emphasising there was no proof of an abuse of the three-month-old ban, said he was writing to Mr Douglas Hogg, the UK agriculture minister, asking him to investigate. He is also asking Mr Horst Seehofer, the German health minister, for more information after the alarm was raised by the German ambassador in Rome. Other EU farm ministers have been alerted, as well as Ms Anita Gradin, the commissioner responsible for combating fraud.

The UK agriculture ministry said it needed evidence before it could investigate. "We're not issuing any export certificates so if it were happening it would be illegal," the ministry said. "But we have got no evidence that it is happening."

Any suggestion the UK is being slack in controlling exports could arouse further suspicions in EU states over its handling of the beef crisis and delay the start of the phased lifting of the export ban.

The German health ministry said it had written to the European Commission last Thursday asking it to investigate reports that British beef infected with bovine spongiform encephalo-

pathy, or mad cow disease, was being smuggled into continental Europe - in one case disguised as a shipment of potatoes.

The German embassy in Rome had reported that it had "confidential information" that infected British beef was being smuggled into Italy.

The Rome report said Belgian police had evidence the export ban was being circumvented and that animals which were supposed to be culled had found their way to Italy via Scotland, Ireland and France with forged Belgian health certificates. Such incidents were "not one-off ones", the Rome report said.

It added that on June 28 the Italian authorities had held up a shipment of potatoes which turned out to be British beef.

Commission inspectors are due to visit Britain again on July 23 to monitor other elements of the UK's BSE control and eradication programme after a previous visit found that controls could be improved.

The Commission's agriculture spokesman Gerard Kieley said Fischler wrote to British agriculture minister Douglas Hogg asking what steps had been taken to prevent British beef being exported.

"Britain must have effective control measures to prevent illegal exports," said a spokesman. Ms Jenny Burt of the UK's International Meat Trade Association, which represents exporters, said: "The beef is worth quite a lot of money through the cull - more than its current market value - and I can't see why anyone would do it."

## BSkyB links with Kirch to develop Germany's pay TV

By Raymond Snoddy in London

British Sky Broadcasting and Kirch Gruppe, the German media company, are to set up a joint venture to develop digital pay television in Germany. BSkyB, the UK satellite television company owned by Mr Rupert Murdoch, has agreed to take a stake of up to 49 per cent in DF1, Kirch's digital television company which plans to launch an initial 17 channels of digital television in Germany on July 28.

BSkyB is expected to invest £200m (\$312m) in the venture over the next few years and DF1 may move quickly to provide up to 200 television channels to German audiences.

Negotiations with Kirch began almost as soon as BSkyB decided that an alliance including Bertelsmann, the German media group, and Canal Plus, the French pay television company, was not performing. BSkyB pulled out of this "grand alliance". BSkyB has argued that there

should be one "platform" offering digital satellite television services for the German market. It believes the Kirch joint venture will make it very difficult for other companies to compete.

Together the two companies have 16 satellite transponders which broadcast the television signal to earth, each of which can be turned into at least 10 television channels.

Mr Gottfried Zneck, chief executive of DF1, said yesterday that with BSkyB, Kirch had a partner "who will enhance the development of our digital platform in Germany with its experience as Europe's most successful pay television operator".

Kirch has significant rights to films throughout the German-speaking world and last week the company outbid Europe's public service broadcasters to win the biggest football broadcasting contract. Together with ISL, the Swiss marketing company, Kirch bid SF2.5bn (\$2.2bn) for the rights to the 2002 and 2006 World

Cup finals outside the US. Fifa, the football body, has emphasised that the games must be shown on free, rather than pay, television.

The main target of the new venture will be the German market, but it is believed the two companies intend to launch digital services elsewhere in Europe. The most likely target is Italy. BSkyB plans to launch at least 200 digital channels in the UK in the last quarter of 1997 and last week made clear to set-top decoder manufacturers that it wanted 1m decoders in the shops by September 1997.

The new digital DF1 service will feature an initial 10 film channels and deals are believed to be in place for channels such as MTV, Nickelodeon and Discovery. Yesterday NBC Super Channel and its sister business service CNBC announced that they would be part of the DF1 programme package.

Lex, Page 14; Sumitomo satellite TV station, Page 15



Environmental activists attempted to stop a bus at the gate of the site of the Temelin nuclear power station in the Czech Republic yesterday. About 2,000 people protested against completion of the Russian-designed power plant. The first of two units is scheduled to begin operation in November. Picture: Reuters

## Airbus consortium to become a single company

By Michael Skapinker in London

Airbus Industrie, the four-country European aircraft manufacturing consortium, announced yesterday that it is to turn itself into a single company.

The change is aimed at turning Airbus - the world's second biggest aircraft maker - into a low-cost, more focused competitor to Boeing of the US, its larger rival, able to take decisions more rapidly and award component contracts to lower cost manufacturers.

Airbus said the change would take three years to complete.

The decision follows years of debate over whether it should abandon its non-profit status in favour of a conventional corporate structure.

Founded in 1970, Airbus is a *Groupement d'Intérêt Économique*, which means that profits and losses accrue to the four partner companies rather than to the consortium itself. The four companies - Aérospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain - also share manufacturing work in proportion to their holdings. They have been divided over the wisdom of becoming a limited company.

Bae has been a strong supporter of the change, supported by Mr Jean Pierson, Airbus's managing director, who argued that the manufacturer had to become a limited company if it was to drive down costs sufficiently to challenge Boeing. Dasa and Aérospatiale were more reluctant, but threw themselves behind the drive for change.

The UK and German governments also have pressed for change. The German government said earlier this year that it would not fund any future aircraft developments unless Airbus became an integrated company. This would have prevented Airbus from proceeding with plans to build the A3XX, a 550-seat "super jumbo" whose development costs are expected to be over \$8bn.

The supporters of change say

Continued on Page 14  
Lex, Page 14

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Nelson Mandela

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## NEWS: EUROPE

## EU states censured over Emu progress

By Lionel Barber in Brussels

European Union finance ministers yesterday delivered a blunt warning to 12 member states, including Britain, France and Germany, to trim their budget deficits in order to stay on course for monetary union in 1999.

Only Denmark, Ireland and Luxembourg escaped censure at the ministerial meeting in Brussels yesterday. Sweden and Belgium were singled out for praise, however, for having made substantial "statistical" progress since March in bringing their finances under control.

The warnings are part of the EU's "excessive deficit procedure" - the annual evaluation of progress toward the Maa-

tricht treaty's deficit and debt criteria which amount, respectively, to 3 per cent and 60 per cent of gross domestic product.

The Brussels meeting was the first under the Irish presidency which is pledged to inject fresh momentum into the debate on employment after last month's inconclusive EU summit in Florence.

Mr Ruairi Quinn, the Irish finance minister, announced that ministers had agreed to set up a high-level political group to study the European Commission's request for an extra Ecu1bn (\$1.25bn) to finance spending on EU transport networks.

The Irish presidency set out an ambitious work programme for the next six months, including stiffening measures to

Mr Kenneth Clarke, the UK chancellor, yesterday delivered a call by the EU monetary committee not to jeopardise Britain's eligibility for a single currency by tax cuts in this year's budget which many Tories believe are essential to prevent a Labour general election victory, write John Kampfner and Lionel Barber. He said he was not prepared to jeopardise his plans to restore order to the public finances after an unexpected shortfall in this year's revenues.

The committee's recommendations call for Britain to end its excessive deficit "as rapidly as possible". The target of 4.5 per cent of gross domestic product recommended for 1996/97 is

tackle fraud against the Union's budget and wrapping up all technical aspects of the transition to the single currency by the end of the year. Issues include the relationship between Emu participants and those outside the euro-

side the single currency zone could become "second class citizens" in dealing in the euro.

French and German banks are understood to be pressing for tighter controls to be imposed on non-Eurozone banks seeking access to euro liquidity during trading hours.

Mr Clarke said Mr Eddie George, Bank of England governor, had raised the matter after a meeting of EU central bankers last week. "I would want to see the City of London treated on the same basis as Paris or Frankfurt," he said.

Separately, Mr Josu Arturiz, the French finance minister, said politicians should be involved in the design of the new euro notes, rather than leaving it to central bankers. Mr Quinn agreed.

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## EUROPEAN NEWS DIGEST

## Detention of Karadzic urged

Mr Robert Freiwald, the US official in charge of overseeing Bosnia's forthcoming elections, yesterday urged Nato to arrest Mr Slobodan Karadzic, the Bosnian Serb leader, and other members of his community who are wanted for war crimes. Mr Freiwald's call was a sign of the mounting dismay in Washington over the fact that Mr Karadzic is still at liberty and wielding considerable influence in the Serb-controlled half of Bosnia. The US State Department and National Security Agency are understood to have argued for swift action to apprehend Mr Karadzic, while Admiral Leighton Smith, the Nato commander on the ground, has counselled caution. Military experts believe a US commando operation, with no direct involvement by Nato's Implementation Force (Ifor), is under consideration.

Mr Freiwald said Ifor - which has a mandate to arrest any suspected war criminals they "come across" - should act more firmly. "It seems appropriate... for a decision to be made that would let Ifor move in to apprehend these people and bring them to trial," he said in Stockholm.

The British Foreign Office has invited senior diplomats from countries interested in Bosnia to a meeting tomorrow where various policy options, including renewed sanctions against the Serbs, will be considered. *Bruce Clark, London*

## US banker's Russian ban ends

Mr Boris Jordan, the American banker who has been a dominant force in Russia's fledgling markets, has returned to Moscow after a brief exile which had sent a chill through the foreign investment community. Mr Jordan's visa was revoked in May without explanation, but many observers had speculated that it was part of a battle for control of one of Russia's main steel mills.

Mr Jordan returned to Russia last Friday, after receiving a visa the day after the country's presidential run-off. Nationalism was a main issue in the presidential battle and some analysts have seen Mr Jordan's visa problems as part of the political contest. Mr Jordan, a former CS First Boston banker who defected to set up his own business, said yesterday he was "grateful to the Russian government for clearing up this problem."

## Prodi names new Rai board

The government of Italian prime minister Romano Prodi yesterday announced a new five-person board for Rai, the state broadcasting corporation, removing the direct influence of the political parties which have traditionally controlled the state-owned media.

The new board, the third in three years, comes at a time of upheaval in Italian television, with new rules pending on TV ownership and the use of satellite and cable television. It also follows a turbulent period under the 1994 government of Mr Silvio Berlusconi which was accused of packing the Rai management with its own appointees.

The members include three women and are: Mr Enzo Siciliano, one of the country's best-known literary critics; Ms Liliana Cavani, a prominent film director; Ms Fiorenza Mauri, who helps to run a family publishing house heavily involved in educational books; Ms Federica Olivares, a US-trained economist who has set up her own publishing house specialising in management books; and Mr Michele Scudiero, a constitutional law professor. *Robert Graham, Rome*

## Romania toughens banks policy

Romania's central bank has cut its lifelines to two troubled banks and stripped a third of its licence in a dramatic toughening of policy. The central bank said it would no longer support the Transylvania-based Banca Dacia Felix or Rensurarea Creditului Romanesc Credit Bank. For the first time since banking was liberalised, the central bank also stripped Banca Fortuna of its licence, saying it had failed to establish its business.

The financial situation of the two banks has deteriorated in recent weeks. Since mid-May they have been unable to make outstanding payments. The central bank said it has so far pumped in about 1,000bn lei (\$200m) to Banca Felix which recently revealed a 1995 loss of 642.2bn lei - far higher than previously disclosed.

Dacia Felix has said it is owed more than \$200m by companies associated with its former figurehead, Mr Sever Muresan.

Mr Muresan said yesterday that accusations of embezzlement made on state radio by the interior minister, Mr Doru Ioan Taradila, last Friday were without proof, and that he had not been given a chance to explain or defend himself. Over the past 18 months, the central bank has repeatedly stepped in to prop up troubled banks. *Reuter, Bucharest*

## France Télécom reduces tariffs

France Télécom yesterday announced average cuts of 15 per cent in the price of national and international telephone calls - the second reduction since the start of the year.

The company said the decision had been taken for two reasons. First, because research had indicated that its subscribers would make more calls if they cost less; it was therefore "a real investment in growth". Second, as part of the process of making the company as competitive as possible in the run-up to the complete opening of the French telecoms market to competition in 1998.

The state-controlled company, in which a minority stake is expected to be put up for sale early next year, said it thought prospective investors would welcome such moves to make its prices more competitive.

It said the cost of calls to 10 European countries would fall by up to 25 per cent. The 10 are: the UK, Germany, Andorra, Belgium, Spain and the Canaries, Italy, Liechtenstein, Luxembourg, the Netherlands and Switzerland.

Trade unions said the cuts would be of more benefit to companies than individual subscribers. *David Owen, Paris*

## ECONOMIC WATCH

## Slowdown in Belgian growth

Belgium's GDP rose 0.4 per cent in the first quarter of 1996 compared with the first quarter of 1995, and 1 per cent from the final quarter of 1995, according to the National Bank of Belgium. The quarter-on-quarter increase was broadly in line with expectations of a slowdown following the 1.8 per cent growth between the third and fourth quarters of 1995. The second quarter growth is expected to be stronger following more optimistic business surveys from the central bank. But the bank still forecasts GDP growth of only 1.5 per cent this year. That could make it difficult for Belgium to meet its target of reducing the budget deficit this year to 3 per cent of GDP - one of the criteria for monetary union.

■ The EU's trade deficit with Japan fell to Ecu20.7bn (\$25.7bn) in 1995 from Ecu21.5bn a year earlier, the Eurostat statistical service said. Exports rose 12.5 per cent to Ecu29.9bn from Ecu26.6bn, while imports were up 4.5 per cent to Ecu30.6bn from Ecu24.8bn.

■ Italy posted a global trade surplus of 1.474bn (\$2.91bn) in April compared with a year-earlier surplus of 1.814bn.

■ French M3 money supply grew 0.6 per cent in May after shrinking 0.9 per cent in April. The central bank said M3 grew 2.4 per cent year-on-year.

## Setback for R  he as military spending is cut again

## Kohl intervenes in row over defence budget

By Michael Lindemann in Bonn

An unusually vocal dispute between two senior German ministers about the size of Germany's defence budget - a dispute which featured a personal intervention by Chancellor Helmut Kohl - was yesterday papered over when it was agreed that the armed forces would get DM46.6bn (\$30.6bn) to spend next year.

The figure represents a compromise between Mr Theo Waigel, finance minister, and Mr Volker R  he, defence minister. It has been painstakingly agreed under Mr Kohl's supervision to help ensure that Germany's budget deficit next year does not exceed 3 per cent of gross domestic product, as set out in the Maastricht treaty.

The 1997 budget nonetheless represents a considerable setback for Mr R  he who has seen his budget dwindle significantly in recent years as Germany has been forced to find

more savings. He started out with DM48.2bn this year, but that was cut to DM47.1bn after Mr Waigel introduced a cap on government spending in March.

Mr Kohl has attempted to console his defence minister by assuring him that his budget will grow gradually in coming years so that by 2000 he would have DM48.5bn to spend. Mr Waigel had wanted the defence budget reduced to DM46bn and raised only slightly to DM46.5bn in 2000.

However, there are likely to be questions over the value of Mr Kohl's assurances, given that Mr R  he was told - in writing - after the general election in 1994 that he would have DM48.5bn to spend every year between 1996 and 1999.

The defence ministry said yesterday a number of Franco-German weapons projects, including the Tiger attack helicopter and the Helios reconnaissance satellite, would have to be reviewed in the light of

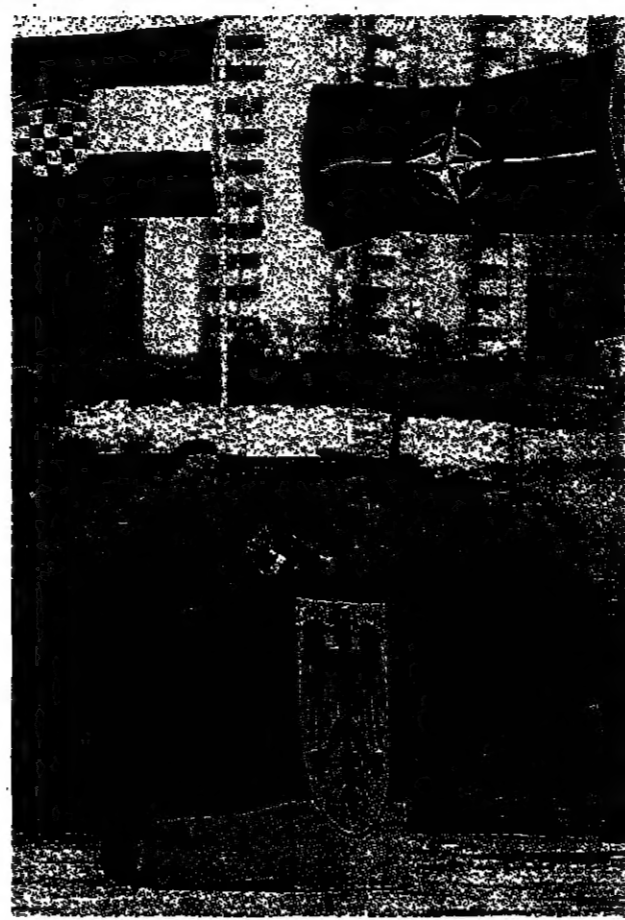
smaller defence budgets in both countries.

A final decision about the viability of these projects would be made at the next biannual Franco-German summit in the autumn.

In a weekend press report Mr R  he had said that he regarded the NH90 transport helicopter, which is being developed with France, Italy and the Netherlands, as more important than the Franco-German Tiger.

Mr R  he's real spending power on new weaponry for the Bundeswehr is also likely to be lower than the headline figure of DM46.6bn because he will have to find DM300m in the 1997 budget to finance German soldiers currently stationed in Croatia.

Mr Kohl had to call Mr R  he to order last week after the defence ministry leaked a letter Mr R  he had written to the chancellor warning him that the proposed budget cuts would have a drastic effect on the Bundeswehr.



Volker R  he addresses German troops in Croatia in February. They will test his ministry DM300m in 1997.

## Emu bible guides German bankers

By Andrew Fisher in Frankfurt

Help is at hand for those German bankers still wondering how to make the arduous preparations for European monetary union. It comes in a 600-page book - as thick as the Frankfurt telephone directory - containing an awesome mass of detail about getting ready for the euro.

Drawn up by the German banking association, which represents 300 private sector banks, the book is intended to give the country's commercial banks a competitive lead over the rest of Europe. It demonstrates just how seriously German banks are taking Emu, which is due to start on January 1, 1999.

No other European Union country has come up with such a comprehensive tome, said Mr Wolfgang Arnold, deputy general manager of the association. But he thought the French banking community was also fairly well advanced in preparing for Emu.

"Germany will be ready," asserted Mr Hartmut Knippen, a director of the association. "I can't say how the other countries will do. We want to help make our private banks stronger in this time of increasing competition."

The book, Guidelines for the Currency Changeover in Banks, has taken 15 months to prepare. It sets out the steps banks need to take in such areas as domestic and foreign payments, bank card transactions, accounting, retail business, money market, foreign exchange and securities settlement, and electronic banking.

Each chapter contains a detailed checklist which banks can use for their own preparations which will vary according to their size and type of business. They will have to be ready for dealings in euros from the start of Emu, although national currencies will circulate in parallel until mid-1999.

The book will be translated into English for foreign subsidiaries. Banking associations in other countries have also taken an interest. For association members, the loose-leaf book will cost nearly DM500 (\$300). Outsiders will have to pay about DM1,000.

While the big banks, led by Deutsche Bank, Dresdner Bank and Commerzbank, are well advanced in their Emu preparations, attention has turned to the problems of smaller banks. To prepare for Emu, banks will have to devote up to a quarter of their data processing capacity to the task, said Mr Hans-Ulrich Gutschmidt, another association director.

Thus, they will have to start making the necessary moves now. "They can only do it with this book," he added. "Or they will need considerably longer than two-and-a-half years."

## Waigel takes a knife to spending

By Peter Norman in Bonn

The DM440bn (\$290bn) draft federal budget for 1997 that Mr Theo Waigel, the German finance minister, will present to his cabinet colleagues tomorrow envisages cuts in 18 out of 28 individual government spending plans.

It is, therefore, an important part of the government's "programme for more growth and jobs". This was unveiled at the end of April with the aim of slimming down expenditure by Germany's federal, state and local authorities, as well as by the social security funds that meet the costs of pensions, health care and unemployment.

The entire programme, which includes tax changes and deregulation

in addition to spending cuts, is intended to make Germany more competitive in global markets.

Details provided by government sources in Bonn yesterday showed that Mr Waigel has succeeded in extracting the DM7bn of savings from his departmental colleagues which were envisaged in the programme in April. Some DM4bn alone will come from the ministries of economics, agriculture, transport and defence.

These departmental cuts will contribute to DM25bn of federal savings next year, once they have been added to DM9.5bn of savings to come from the federal labour office, a DM2.5bn cut in federal payments to the state pension funds, DM3bn of savings on personnel

costs that will result from staff cuts and next year's modest civil service pay rise, and a DM3bn saving from a planned one year postponement of an increase in children's allowances.

Mr Waigel will tell the cabinet that the savings will come mainly from running costs, although federal investments are set to drop next year to DM60.5bn from an expected DM66.8bn this year and then hover around DM60bn in the period from 1998 to 2000 inclusive. The minister is expected to argue that the share of investment in overall spending next year will be in line with the average for the period between 1990 and 1995.

Investment in transport infrastruc-

ture will be largely maintained despite a 9.9 per cent drop in the federal transport ministry budget to DM45bn thanks to increased revenues in this area.

Mr Waigel also promises to keep a high level of transfers to eastern Germany to finance infrastructure investment. However, total federal transfers to the new L  nder (federal states) will drop by about DM9bn to DM50bn, largely because of reduced federal contributions to social payments such as unemployment pay.

The budget will set an important and overdue signal by cutting federal subsidies by 5 per cent next year, with aid for Germany's coal industry set to fall by DM500m to DM5.1bn. Help for farmers in coastal regions will be trimmed.

## Leader of the CGIL marks out territory as the critical conscience of the left

## Italian unions fire warning shot on wages

By Robert Graham in Rome

Italy's powerful trade union movement is keeping its distance from the new centre-left government and has warned that it will take a tough line on wage increases.

This stance was spelled out at last week's congress in Rimini of the CGIL, the largest of the three main union confederations. The congress was the first presided over by Mr Sergio Cofferati, general secretary, who is seen as close to the Party of the Democratic Left (PDS), the main partner in the Olive Tree alliance which won the April general elections.

At the congress - from which he emerged with his authority considerably strengthened - Mr Cofferati confirmed he now sees his role as "the critical conscience" of the left in government. The unions do not wish to make the same mistake as those in Spain who they believe identified too closely with the Socialist government of Mr Felipe Gonz  lez, thus limiting their freedom of action.

In both his opening and closing addresses, Mr Cofferati made clear he would not accept the government's 2.5 per cent inflation target for 1997 as a benchmark for current wage negotiations. This was despite a personal appearance by Mr Romano Prodi, the prime minister, at the congress.

Mr Cofferati was under pressure to adopt a tough stance partly because he faced a revolt by a hard core of the left inside the CGIL who support the Reconstructed Communism party. He was re-elected by 171 votes with seven abstentions and one against.

Mr Cofferati also faced the need to co-ordinate a congress position on the large number of sensitive wage contracts on which talks are under way or about to start.

Grass-roots CGIL members have been pressing for pay rises to recover lost purchasing power. The historic 1993 agreement between government unions and employers ending wage indexation pegged wages rises to productivity increases and to projected (not actual) inflation. Wages have grown on average over the past three

years at 1 per cent below actual inflation. The 1993 agreement is due for revision this year before another set of two-year contracts. Engineering workers, who have traditionally set the benchmark, are demanding at least a 3 per cent rise plus recovery of part of what they have lost in real terms. They argue that businesses have been able to make substantial profits since 1993 and have been allowed to raise production prices higher than necessary (and against the spirit of the 1993 agreement).

Another area of potential difference with the government is over privatisation proceeds. The CGIL wants to see a sizeable part of income from state asset sales earmarked for job creation. The Treasury has been channelling this income

into a fund to amortise the national debt stock. The CGIL says it will press the government to come up with over L20,000bn (\$13bn) to combat unemployment in the south, in part directed towards infrastructure projects.

Mr Cofferati, dubbed the sphinx because of his enigmatic smile, has proved an astute political operator while running the CGIL.

He helped to overturn the pension reform plans of Mr Silvio Berlusconi's government in November 1994 and exercised an effective veto on the economic policy of the subsequent government of Mr Lamberto Dini. He will now be the rallying point for those on the left who want to moderate the Prodi administration's plans to liberalise the economy and impose budgetary austerity.

less prominent Socialists around the country. Morale has been badly shaken by recent allegations of construction kickbacks received during the 1990s by local Socialist leaders in Andania, Mr Gonz  lez's home region, and by fresh scandals involving Swiss bank accounts held by senior Socialists in Navarre, in the north.

It was there that Mr Gabriel Urralburu, former head of the local Socialist-run government, was imprisoned last year in connection with corruption.

Mr Gonz  lez's executive last week suspended those accused of bribery from party membership pending investigation into the charges. There is growing concern among senior Socialists, however, that more sleaze allegations will surface now that the party is in opposition.

## Gonz  lez acts to quell party rumblings

By Tom Burns in Madrid

Mr Felipe Gonz  lez, Spain's former prime minister, was yesterday forced to act to quell a revolt within the Socialist party, of which he has been undisputed leader for more than 20 years.

The Socialists' narrow defeat in the March 3 general election after a long stretch in power has prompted unprecedented calls for Mr Gonz  lez to step aside.

Senior party officials yesterday told a meeting in Madrid of the party's executive committee that criticism of the leader, let alone talk of replacing him, was not on the agenda.

The message followed a weekend circular from officials to all the party's regional associations warning against an internal debate and urging Socialists

to concentrate on remaining united to oppose Mr Jos   Maria Aznar's centre-right government.

Mr Gonz  lez's pre-emptive action underlines how seriously he is taking the critical voices beginning to be heard in senior ranks. His supporters are surprised at how quickly the gloves have come off among the normally well-disciplined Socialists.

After the general election, the party looked on its leader as its saviour. During the campaign a double-digit lead by Mr Aznar's Popular party had almost disappeared and Mr Gonz  lez, prime minister since 1982, was credited with having closed the gap.

But, since then, Mr Aznar, who has formed a parliamentary majority with nationalist parties, has been looking increasingly in charge. The Socialists,

meanwhile, have looked more and more uncomfortable in the face of a series of sleaze allegations dating from their years in power.

The first broadside against Mr Gonz  lez was delivered last week by Mr Juan Carlos Ibarra, outspoken head of the regional government in Extremadura, a backward area of west Spain and a Socialist stronghold.

He wanted a party congress (which is held every three to four years and is not due before next March at the earliest) to be called as soon as possible in order to elect a new executive committee.

Mr Jos   Borrell, a member of several of Mr Gonz  lez's governments and a man often tipped as a future party leader, urged the "regeneration" of the party and the call was quickly taken up

## Russian bank put into administration

By Chrystie Freeland  
in Moscow

The Russian central bank yesterday took over one of the country's largest banks, provoking fears that the nation's fragile banking sector could be on the verge of a wider crisis.

Tveruniversalsbank, ranked 17th in the country, will be under the administration of the central bank until September 1, when the authorities will review its position.

The former Soviet prime minister, Mr Nikolai Ryzhkov, a leading Communist politician, was a senior executive at the suspended bank and some analysts said the Communist defeat in last week's presidential election had been the last straw for the highly illiquid bank.

The central bank has pledged to protect Tveruniversals' depositors, who have some Rb525bn (\$103m) in the bank. The bank's assets are estimated at Rb65.10bn.

Some 2,500 banks have sprung up since the beginning of market reforms. But economic stabilisation has eaten into the easy money of the early years of reform, bringing down the sky-high

Foreign investors and political leaders from east and central Europe yesterday welcomed the prospect of greater trade and investment with a more stable, democratic Russia at the first international investor conference since the re-election of Mr Boris Yeltsin as Russian president, writes Anthony Robinson in Salzburg.

"The election results mark a serious step forward and should create the stability which attracts foreign investors," Mr Yevgeny Yasin, the Russian economy minister, told a central and eastern European economic summit yesterday.

rates of inflation which had nourished most of Russia's nascent banks.

Last week's re-election of President Boris Yeltsin dealt the banking sector a second blow, pushing down the stratospheric yields on government bonds which have been a main source of revenue this year.

"This could be a signal of the beginning of the banking crisis of which we have spoken for so long," said Mr Andrei Ilarionov, director of the Institute

for Economic Analysis, a Moscow think-tank. "In the new conditions of low inflation, government bonds were the only source of easy profits for banks. Yields have fallen sharply now, so the entire banking industry could face a major crisis."

But Russian money markets, which ground to a halt last August following a severe liquidity squeeze, reacted calmly to the news. Russian bankers said Tveruniversals' suspension, on its own, was unlikely to cause untolerable difficulties for the rest of the market.

"It is unpleasant because Tveruniversalsbank is one of the biggest traders on the market," a senior Russian banker said. But he added that it was not one of the big six or eight banks which dominate the financial sector.

Mr Tom Reed, an analyst at Alliance-Menatop, said one factor which had pushed Tveruniversalsbank over the edge was its heavy trading in securities, or promissory notes, issued by a dizzying array of Russian government and private institutions to ease the cash crunch that has depressed Russian industry.

## Lebed faces Chechnya challenge

By Chrystie Freeland

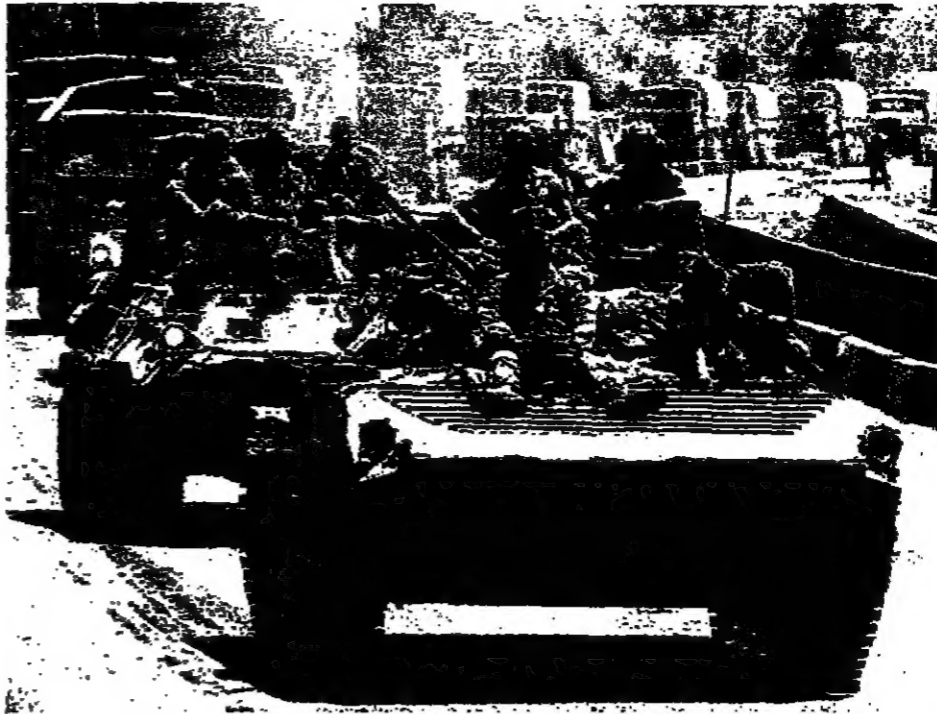
Mr Alexander Lebed, Russia's new security chief, yesterday sought to consolidate his position in the Kremlin, holding meetings with the president and prime minister and winning preliminary presidential approval for an extension of his authority.

But Mr Lebed's efforts to turn his third-place showing in the first round of the Russian presidential poll into a powerful role in the administration of President Boris Yeltsin ran into stiff opposition from senior Russian generals.

The boldest rebuff came in Chechnya, where General Vyacheslav Tikhomirov, the Russian military commander in the break-away republic, issued a bellicose ultimatum to Chechen separatists.

At a press conference at the Khankala military base outside Grozny, the Chechen capital, Gen Tikhomirov gave them 24 hours to hand over all their Russian prisoners. If the Chechens, whose own fighters are imprisoned by the Russians, failed to meet the deadline, Gen Tikhomirov warned that "the joint forces command will take appropriate steps against the bandits and will move to destroy them".

Gen Tikhomirov, who had earlier denied a report he was about to be transferred from



A Russian convoy near Grozny, the capital of Chechnya, where tensions have increased

Chechnya, was quoted by Itar-Tass news agency as saying separatist leader Mr Zelimkhan Yandarbiyev must make concrete proposals by today.

The number of prisoners held is unclear but some reports have put the figure at

something over 1,000 on each side.

Gen Tikhomirov's threat has raised the tension in Chechnya higher than it has been at any time since Russian President Boris Yeltsin initiated peace talks in an effort to boost his chances for re-election earlier

this year. The rebels signed a ceasefire with the Kremlin exactly four weeks ago.

Among its terms, the Russian army agreed to remove all its checkpoints around the region by last Sunday, and to withdraw all its troops by September 1. Both sides agreed to

the prisoner exchange and the rebels undertook to "demilitarise" the province. But since the signing, each side has accused the other of bad faith and sporadic clashes have continued. Gen Tikhomirov's tough talk has also revealed deep rifts within the military and suggests that Mr Lebed will have to tread cautiously as he seeks to carve out a role for himself.

Gen Tikhomirov is seen as a member of the hawkish faction in the Ministry of Defence, which suffered a setback last month when four of Russia's most senior conservative officials were sacked from the government.

Although it is difficult to pigeonhole Mr Lebed's political philosophy - he veers from crudely nationalist comments to moderate, liberal views the retired general has been an outspoken critic of the Chechen war from the outset. Mr Lebed had said he would travel to the war-torn region this week in an effort to broker a deal.

Gen Tikhomirov's comments are expected to complicate that mission.

The commander's aggressive stance has also underscored the rivalry and confusion which has beset the Russian military since the dismissal of defence minister Pavel Grachev last month.

## Plan to save one of world's dirtiest towns

The one bit of good news for the environment in the heavily industrialised Azerbaijan city of Sumgait is the terrible news about its industry. Nearly every factory has had to close because of spiralling costs, a collapse of subsidies and the loss of once-captive Soviet markets.

For many who have suffered one of the most notorious environmental disasters in the former Soviet Union, this has delivered some relief, in spite of the loss of jobs.

And now a United Nations plan to resurrect Sumgait's economy brings hope of both jobs and cleaner air, but there are some formidable obstacles.

Sumgait, a city of 300,000 people about an hour's drive from Azerbaijan's capital, Baku, was set up before the second world war to take advantage of its proximity to Caspian Sea oil fields, producing petrochemicals, energy-intensive metallurgy and heavy equipment for the entire Soviet Union.

Dr Khalida Kuliyeva, the town's head paediatrician, has the unenviable task of recording

There are 5m tonnes of toxic waste in Sumgait. It is stored in unorganised dumps. In some cases it is simply tossed into the street

ing the public health effects of Sumgait's factories.

Her statistics, compiled from hospital records, show a nearly eightfold increase in the rate of children born with birth defects in the town between 1970 and 1990. The percentage of children born prematurely nearly doubled, and the premature babies' mortality rate more than tripled.

The numbers add up to disturbing anecdotal evidence. "Gassanova Shafa, 33 years old and a former worker in our aluminium factory, had five pregnancies. The first four ended in miscarriages. The fifth, her first live child, was born on March 26. It had a rupture in its skull and ruptures in its spine from which nerve tissue escaped. Its heart was deformed and its legs curved. It died within two days. She can no longer have children," Dr Kuliyeva said.

And clean air or not, 5m tonnes of toxic waste have already accumulated in the town, said Mr Mamed Mamedov, head of the Sumgait city ecology committee, a government agency. Pointing to a map, he said: "These red circles are unorganised dumps... the waste is simply tossed into the street."

Indeed, in the blasted clearings that border the now silent hulks of chemical factories, heaps of junk are strewn haphazardly. Unmarked barrels lie rusting. Youtis graze sheep



and goats among the weeds. Many residents say their one hope is to get out of Sumgait. "Azerbaijan is my motherland, the motherland of my ancestors. But for them - the children - I must get out of here," said Mr Gamlet Nakhchev, 61, who has already sent his wife to Russia.

"I want to sell the apartment, but the money I would get for it won't even cover our travel costs," he said.

The town hardly seems like a magnet for foreign investment. But that is precisely what the UN Development Programme and the Azerbaijani government have in mind with a plan for a "special economic zone". The 200-page plan, optimistically entitled "City of Tomorrow" and made public in a summary last week, calls for an infrastructure overhaul and big tax incentives and subsidies to attract investors.

The plan's leading backer, the UN's resident co-ordinator, Mr Paolo Lembo, said the goal was to "halt a situation that was deteriorating into a state of collapse and apocalypse". Mr Lembo said that although few of the particulars of the plan had been spelled out, interest from overseas investors was already high. Hundreds of foreign companies have looked at the project, he says, including the Bank of Austria, Siemens and Kaiser Engineering, which is exploring the possibility of resurrecting Sumgait's aluminium plant.

Investors will be expected to replace dirty, money-losing Soviet technology with new, cleaner and more efficient production methods. They will also be obliged to contribute to an environmental clean-up fund. But such a tax will have to be kept low to avoid undoing the incentives that will lure them there in the first place.

That leaves open the question of who will pay the hundreds of millions of dollars which Mr Lembo admitted would be needed to clean the place up fully. Mr Lembo said he doubted Ms Kuliyeva's health statistics, but his report concedes that Sumgait has become "an unhealthy place to live".

Until something is done about that, any foreign companies opting to invest in the special economic zone may have to devise incentive schemes of their own. If they want to convince their managers to live in Sumgait.

Peter Graaff

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## NEWS: WORLD TRADE

## Delta urges veto on BA-American link

By Michael Stapinko, Aerospace Correspondent

Delta Air Lines yesterday became the first large US carrier to call for the proposed alliance between British Airways and American Airlines to be vetoed.

Several US airlines, including United, Continental and TWA, have indicated they are prepared to see the deal go ahead if they are, in return,

granted the right to fly to London's Heathrow airport.

But Delta said yesterday it accepted the UK government could not ensure increased Heathrow access for US carriers as the allocation of landing and take-off slots was governed by European Union law.

Mr Robert Coggin, Delta's executive vice-president, said: "The British government's argument that it has no power

over Heathrow slots is absolutely correct. It's not their domain."

Mr Coggin said that in the absence of a new mechanism to allocate Heathrow slots, the BA-American deal should be stopped.

"This is a bad deal. It is not a partnership that's going to foster competition. It concentrates too many resources in the hands of the two carriers." The only other large airline

to express outright opposition to the alliance is Virgin Atlantic of the UK, with which Delta has a "code sharing" agreement, allowing the carriers to sell seats on each other's flights.

Mr Richard Branson, Virgin's chairman, was in Washington last month arguing against the deal.

In addition to its arrangement with Virgin, Delta has an alliance with Swissair. Austrian Airlines and Sabena of Belgium.

But Mr Coggin said these alliances accounted for far smaller shares of the market than the BA-American deal, which will control 60 per cent of UK-US flights. Negotiators from the UK and the US are to continue talks in London next week in an attempt to conclude an "open skies" deal which would allow the BA-American deal to go ahead.

However, officials say the two sides are still far apart on the Heathrow slots issue.

The UK has said in negotiations so far that US carriers could gain access to Heathrow under EU regulations requiring half of new slots to be given to new entrants.

The US has said this is insufficient, and is pressing for the UK to find a way of guaranteeing access to its airlines.

## 'National' car plan presses on in Indonesia

By Manuela Saragosa in Jakarta

Indonesia plans to deliver models of its "national" car to buyers in October, defying international criticism of the controversial car policy, which puts established investors in the country's automotive sector at a disadvantage.

Under Indonesia's national car policy, Timor Putra Nasional, a company controlled by Mr Hutomo Mandala Putra, President Suharto's youngest son, has been awarded large tax and tariff breaks to produce the Timor - a 1,500cc sedan manufactured in co-operation with Kia Motors of South Korea.

The US, Europe and Japan have said the policy breaches tenets of the World Trade Organisation.

Mr Hutomo, who unveiled a prototype of the car yesterday, said Indonesia's national car programme "cannot be stopped". Some 60 Timor cars - made in South Korea and resembling Kia's Sephia sedan - have been imported and will go on display in Jakarta over the next few months before deliveries start in October.

Timor Putra Nasional has been given permission to import 49,000 built-up Timor cars tax and duty free from South Korea until June next year, provided Indonesian workers are involved in their production and the cars use a

certain amount of components made in Indonesia.

Mr Hutomo said the Timor will sell for Rp35m (\$15,000), about half the price of other sedan models in Indonesia. Timor Putra Nasional plans to assemble Timor cars in Indonesia in March next year.

The unveiling of the Timor was timed to pre-empt the launch of another national car, which is being manufactured by a company controlled by Mr Bambang Trihatmodjo, Mr Hutomo's older brother. Mr Bambang's national car, however, has not been awarded any tax and tariff breaks.

Citra Mobil Nasional, a subsidiary of Mr Bambang's listed holding company Bimantara, is due to launch two versions of its national car, manufactured in co-operation with Hyundai Motors of South Korea, on July 23.

Mr Bambang has held discussions with Mr Tunku Ariwibowo, minister of trade and industry, over the past few months to push for tax and tariff breaks similar to those awarded to his brother. But the minister has been reluctant to award "pioneer" status to another car manufacturer.

Nevertheless officials at Mr Bambang's company are optimistic. Talks were going on and it was "just a matter of time" before the company got tax and tariff breaks, said Mr Jongky Sugianto, Citra Mobil Nasional's president director.

## US cool on WTO chief's plan for trade help to poor nations

By Guy de Jonquieres



Renato Ruggiero: WTO head wants to help 48 poor nations through trade concessions

The US has expressed strong reservations about a proposal by Mr Renato Ruggiero, head of the World Trade Organisation, that industrialised nations and advanced developing economies agree on trade concessions to help the world's poorest countries.

Although Washington has not said outright that it will oppose the scheme, it has told Mr Ruggiero it is unenthusiastic about it and would have difficulty securing the legislation needed to put it into effect.

The negative US response is a setback for Mr Ruggiero only 10 days after he unveiled his initiative at the Lyons summit

of the world's leading industrialised countries.

He had hoped to win backing for it at the WTO's ministerial conference in Singapore in December.

Mr Ruggiero has proposed that the WTO's richer members commit themselves to abolishing tariffs and non-tariff barriers on a range of exports from the 48 poorest countries, as part of an effort to prevent them being marginalised in the global economy.

However, the US has said that to participate it would need to obtain fresh legislative authority from Congress, which would be difficult in an election year.

It is not satisfied that enough advanced developing

countries would be ready to contribute to such a scheme, or that it would genuinely help the poorest economies.

Washington also says the proposal could create problems because at least two of the potential beneficiaries, Bangladesh and Kenya, are sizeable textile exporters.

Special actions to remove barriers to their exports would require amendment of US plans for complying with a WTO agreement to liberalise trade in textiles, a timetable for which has been submitted to Congress.

Although the European Union broadly supports Mr Ruggiero's initiative, it seems unlikely that it could go ahead without US support.

## Backing for global chips forum

By Neil Buckley in Brussels

The European Commission and Japan yesterday reached an understanding that a bilateral US-Japan pact on semiconductor trade should be replaced by a global inter-governmental forum.

This came as the US and Japan prepared to resume talks on renegotiating their existing bilateral agreement which expires at the end of this month. Europe argues that its chip manufacturers have been at a disadvantage because of the US-Japan accord on semiconductors.

Mr Peter Carl, the European

Union's chief negotiator, met officials of Japan's Ministry of International Trade and Industry in Tokyo yesterday following talks between the Commission and Japan at the Group of Seven summit of leading economic nations in Lyons.

Mr Carl said the two sides agreed that inter-governmental co-operation should be on a multilateral, not bilateral basis. They called for creation of a "Global Governmental Forum" to promote free trade in semiconductors and for exchange of information and discussion of government policies.

The forum would initially

comprise Japan, the US and the EU but would be open to other members. The touchstone of its operation would be respect for market principles - with markets, not governments, to determine market share - and consistency with World Trade Organisation rules.

A sticking point may still be Japan's insistence that the EU remove tariffs before any agreement can be signed. The Commission says it would be prepared to discuss lowering tariffs as part of an agreement, but does not accept removal of tariffs as a precondition.

The US has been pressing Tokyo to conclude a "transitional" bilateral semiconductor accord when the existing deal expires on July 31. But Japanese trade officials have argued that the bilateral arrangement is no longer needed now foreign chip manufacturers have gained more than a 30 per cent share of Japan's microchip market.

Mr Carl said European chip producers only had a 1.5 per cent share of Japan's market, due to "pressure on Japanese buyers of foreign semiconductors to purchase American-made semiconductors".

## NEWS: INTERNATIONAL

## US irked by Netanyahu cabinet move

By Julian O'Connell in Jerusalem

Mr Benjamin Netanyahu, Israeli prime minister, formally appointed Mr Ariel Sharon, the ultra-nationalist former general, to his cabinet yesterday hours before he left Israel for his first official visit to the US as prime minister.

Mr Sharon's appointment, which was approved by parliament yesterday, will anger Arabs and concern US officials who believe his powerful role in the government in the ministry of national infrastructure will further harm the fragile Middle East peace process.

In Washington Mr Netanyahu will come under pressure to explain to US President Bill Clinton and administration officials how he intends to pursue the paralysed peace process which the US has underwritten both diplomatically and economically.

Mr Netanyahu, who would much rather discuss his government's plans for sweeping reforms of the economy, is expected to outline a vision of a much slowed down peace process with a de facto freeze on negotiations with Syria and creeping, highly limited movement with Palestinians.

He will argue that the principle of land for peace, enshrined in United Nations resolutions, the foundation stone for peace efforts in the region, is not acceptable to his government.

He is expected to tell Washington that there are few prospects for a resumption of peace talks with Syria over return of the Israeli-occupied Golan Heights as long as Syria continues indirectly to back attacks against Israel by pro-Palestinian guerrillas in Lebanon. On peace with the Palestinians he is likely to reiterate his government's opposition to the establishment of a Palestinian

state or the transfer of any more land from Israel to Palestinian control in the West Bank and Gaza Strip.

Instead he will outline his vision of limited autonomy for the Palestinians backed by greater access to the Israeli economy in return for the Palestinian Authority disarming Islamist guerrillas and further clamping down on terrorism.

He will also slightly soften his stand towards meeting Palestinian President Yasser Arafat, at some future point, and unveil plans to ease Israel's blockade of Palestinian areas. But he will not outline his government's intentions on the long delayed promise to withdraw troops from the still Israeli occupied West Bank town of Hebron, a flashpoint of Arab-Jewish violence.

Mr Netanyahu's position is unlikely to satisfy the Clinton administration but the US president will be cautious in criticising the new prime minister ahead of US elections, on which the US Jewish lobby could have an impact. While in the US Mr Netanyahu will also meet members of Congress, leaders of the Jewish community and investment bankers in Wall Street.

## Early use of new Aids drugs urged

The latest drugs for Aids and HIV infections should be given much earlier in the course of the disease, said Mr Scott Hammer, opening the first main session of the Eleventh International Aids Conference in Vancouver, Canada, yesterday, writes Daniel Green in Vancouver.

Mr Hammer, associate professor of medicine at the Harvard Medical School, Boston, said even moderately potent combinations of drugs led to a 45 per cent reduction in the risk of death in patients not yet seriously ill with Aids.

This is in contrast with trials of older drugs which suggested there was no benefit from early prescribing.

Latest estimates on the market since the start of 1996, held out the promise of eliminating the virus from the body entirely. Previously, measurement of success was in slowing down the disease's progress.

Other research presented at the conference showed that in trials lasting up to 48 weeks, it was possible virtually to eliminate the HIV from the bloodstream in between 40 per cent and 90 per cent of patients.

But the optimism of researchers and drugs companies was tempered by accusations of hyperbole by AIDS activists. They also accused Merck and Abbott Laboratories of the US and Switzerland's Roche of profiteering.

The companies recently launched drugs which formed the basis of the promising results. But the results are obtained only when several drugs - usually three - are taken together, the cost estimated at up to \$13,000 a year.

Dr Brian Gazzard of the Chelsea and Westminster Hospital, London, said his hospital's drugs bill for Aids/HIV would rise from £250,000 (\$390,000) a year to £59m if combination treatments were used exclusively. The annual cost per life saved with combination treatment was \$4,000-£5,000 per patient.

Editorial Comment, Page 13

Mark Ashurst

## International Court of Justice finding will put pressure on world powers

## Use or threat of nuclear arms 'unlawful'

By Gordon Gromb in The Hague

The use or threat of nuclear arms was unlawful under most circumstances, the International Court of Justice said yesterday in a finding which delighted disarmament campaigners and put pressure on the main world powers to step up efforts aimed at curtailing the weaponry.

The World Court's keenly awaited "advisory opinion", although carrying no legal force, was sought by the United Nations General Assembly at the end of 1994, and the outcome will be used by countries seeking to re-start Geneva talks on a Comprehensive Test Ban Treaty.

CTBT negotiations stalled last month after China, along with Russia, insisted that so-called threshold nuclear powers - India, Pakistan and Israel - ratify the treaty before its provisions became binding on the five declared nuclear powers which comprise the permanent members of the UN Security Council - the US, Britain, France, Russia and China.

This followed a refusal by New Delhi to renounce tests unless the five signed up to a timetable for complete nuclear disarmament.

The UK Foreign Office said last night that the court's opinion was complex and required careful study. France has continually questioned the competence of the court in the issue.

The 14 judges of the World Court, the UN's judicial branch which sits in The Hague, first found unanimously that "a threat or use of force by means of nuclear weapons... is unlawful" if it contravenes stipulations in the UN charter which protect territorial integrity and political independence.

Then they reached a less clear-cut interpretation on the firing of atomic warheads

under other circumstances. After a seven-seven split, the casting vote of Mr Mohammed Bedjaoui, the Algerian presiding judge, carried a recommendation that "the threat or use of nuclear weapons would generally be contrary to the rules of international law applicable in armed conflict, and in particular the principles and rules of humanitarian law".

The court went on to say that it "cannot conclude definitively whether the threat or

Finding will be used by countries seeking to re-start Geneva talks on a Comprehensive Test Ban Treaty

use of nuclear weapons would be lawful or unlawful in an extreme circumstance of self-defence, in which the very survival of a state would be at stake".

However, anti-nuclear activists pointed out that the division came because three judges wanted to go further in circumscribing the nuclear deterrent. Mr Peter Weiss of the International Association of Lawyers Against Nuclear Arms said: "It is really 10-4 for illegality."

"The only exception is an extreme case, and in that case use might be illegal. That is totally different from the position of nuclear weapon states which put forward deterrence as a tool against anything they want to deter."

In another part of its finding the court said with unanimity that "there exists an obligation to pursue in good faith and bring to a conclusion negotiations leading to nuclear disarmament in all its aspects under strict and effective international control".

## Unity of apartheid's foes under strain

As President Nelson Mandela begins his first state visit to Britain today, investors who have long been wary of the historic alliance between his African National Congress and South Africa's trade unions are now wondering whether the ties are strong enough.

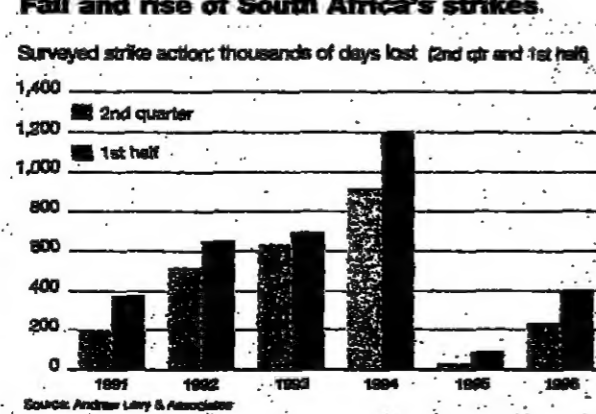
The week-old "wild cat" strike at Anglo American's Rustenburg Platinum Mine, the world's largest platinum producer, is a reminder that undisciplined action can be more of a problem than a strong union movement, which condemned the unofficial action.

Now the ANC government's recently released economic policy threatens to undermine both the influence and the self-esteem of the Congress of South African Trade Unions (Cosatu), the country's largest labour federation.

If Cosatu condones the austerity measures at the core of the government's strategy for growth document, such loyalty to the ANC could exact a heavy toll on the unions' influence beyond the ranks of their 1.6m membership, a minority of the workforce.

The fiscal targets announced on June 14 by Mr Trevor Manuel, finance minister, embrace the orthodoxies of the World Bank and the International Monetary Fund with considerable fervour. In so doing, the government has largely rejected Cosatu's calls for more public spending, higher corporate tax rates and the maintenance

Fall and rise of South Africa's strikes



Source: Andrew Levy &amp; Associates

nance of exchange controls. Instead, the government plans to reduce the budget deficit to 3 per cent of gross domestic product by 2000, from 5.2 per cent this year.

The week-old stoppage at Rustenburg has united Amplats and the National Union of Mineworkers in condemning the strike by about 21,000 non-unionised workers. But to little avail. Their demand, that the company repay their tax and national insurance contributions, has cost Amplats R100m (\$23m) and prompted the dismissal of the entire workforce of 28,000, including a large number of NUM members.

Amplats, which said it was willing to re-hire employees who agreed to return to work, said yesterday more than 3,000 had applied.

"Wild cat strikes are inimical

to the whole structure of industrial relations that the government has tried to build. They are becoming more and more rare," says Mr Stephan Malherbe, a policy analyst at Anglo American.

For all that, consensus between business and labour remains elusive. A recent survey by Andrew Levy and Associates, a Johannesburg based labour consultancy, found the number of "man-days" lost through strike action in the year to date has increased fourfold to 400,000 since last year's record low. It predicts the rising trend will continue as euphoria in the wake of the all-race election of 1994 gives way to more material demands.

"The fundamental question is whether, given the history that we have, there can be a social partnership between

business, labour and the government at all," says Mr Jayandra Naidoo, executive director of the National Economic Development and Labour Council, a tripartite policy forum for business, unions and the government.

Mr Manuel's argument is that austerity now will be rewarded with 1.35m new jobs and a fivefold increase in foreign direct investment to \$900bn a year by 2000. The unions have postponed their verdict on this "No pain, no gain" formula until later this month - which gives politicians time to lobby its historical allies in the anti-apartheid movement.

"We are no longer second-guessing what the position of the government is. The fact that we don't agree does not mean we have to throw our hands up in the air and abandon our alliance with the ANC," says Mr Sam Shilowa, Cosatu leader.

Many businessmen will agree. Reassured by the promise of tax incentives for investors, further trade liberalisation and steps towards the abolition of exchange controls, business leaders are keen to placate labour.

In his annual statement released last month, Mr Julian Ogilvie Thompson, Anglo American chairman, held out an olive branch to his union critics. Business has successfully lobbied the policy-makers, he said, but its contributions to the economic policy debate had been "too prescriptive" and

paid "too little attention to development issues". The comment may be scant consolation for the unions, but it would have been inconceivable a month ago.

Industrial relations will be critical to investor confidence, which is currently at a low ebb. Despite the fact that South Africa has an 18 per cent weighting in the International Finance Corporation's emerging markets index, foreign fund managers have limited their exposure to South African equities to an average 4 per cent of emerging market portfolios. And foreign direct investment has so far been disappointing.

The government's shift in the direction of favouring a policy of privatisation, signalled in statements made by Mr Mandela after his visit to Germany and in the growth strategy document, may prove an even more divisive issue as far as the unions are concerned. Levy and Associates predict "the stage is set for a showdown".

Privatisation is not a word Mr Manuel will use in public, preferring euphemisms about the "restructuring" of state assets.

But he is adamant that his fiscal targets, which for the first time include revenue from the sale of minority equity stakes in state-owned corporations, are "not up for negotiation".

Mark Ashurst

JULY 10 1996

## US Senate heads for minimum wage vote

By Jurek Martin in Washington

The US Senate yesterday headed towards a vote on the issue that has tied up Congress for weeks - the first increase in the federal minimum wage since 1989 - and along battle lines that mirror the House action at the end of May.

A crucial vote could come as early as today, with the main division not on raising basic pay from \$4.26 an hour to \$5.15, which will probably pass, but on an amendment exempting small businesses from having to comply.

President Bill Clinton has warned repeatedly that he will accept only a "clean," unconditional increase in the minimum wage and will veto any "poison pill" rider intended to mitigate its effect.

Organised labour and business associations have been lobbying furiously on the minimum wage, with each side targeting senators from both parties still uncommitted on the small business exemption.

As drafted by Senator Chris-

topher Bond, the Republican from Missouri, the amendment would free all businesses with less than \$500,000 in annual sales from having to pay the higher minimum, would permit them to pay new workers the old scale and delay the effective date of the overall increase until the start of next year.

The Clinton administration and congressional Democrats claim that this would render virtually academic any increase in the minimum wage and thus deny a necessary boost to the pockets of at least 10m working Americans.

While he was Senate majority leader, Mr Bob Dole, now the presumed Republican presidential nominee, blocked a floor vote. But his departure for the full-time campaign trail and votes in the House approving the minimum wage increase and rejecting the small business exemption changed the political calculus.

Senator Trent Lott, Mr Dole's successor, and Senator Tom Daschle, the minority

leader, quickly agreed to schedule a division in the week after the Independence Day break.

The House votes in May were notable for the number of moderate and freshmen Republicans, all up for re-election, who broke with party orthodoxy to back the increase.

The Senate is usually the more unpredictable chamber. This time, with only one third of its seats up for grabs in the November polls and with over half that number retiring, neither side is confident of victory on the Bond amendment.

Broadly speaking, the minimum wage debate has cut in favour of the Democrats, according to public opinion polls which have shown majorities as high as 80 per cent in favour of an increase. This explains Mr Dole's reluctance to risk defeat in a vote.

But now that he has distanced himself from Congress the potential damage to his presidential ambitions has probably also declined.

## Former Clinton colleague seeks to lead Perot ticket

By Jurek Martin in Washington

Mr Richard Lamm, the former Democratic governor of Colorado, is expected to announce today that he is willing to become the presidential candidate of the new Reform party set up by Mr Ross Perot.

His bid, if nothing else, should have the effect of forcing Mr Perot, the 1995 independent candidate, to declare his intentions before the Reform party holds its two-city, two-part nominating convention in California and Pennsylvania next month.

It may also concern President Bill Clinton's re-election campaign as Mr Lamm could increase the Reform party's appeal to Democrats either as a candidate or as an active supporter of Mr Perot. His name, with Mr Perot's, is already on a

preference questionnaire sent to 1.3m party members.

Mr Lamm, Colorado governor from 1975-87 and a former close associate of Mr Clinton, switched to the Reform party last month, after a successful address in which he lamented the Democratic party's inability to adapt its New Deal social programmes to modern needs.

Once a classic if iconoclastic liberal Democrat, Mr Lamm now subscribes to most, if not all, of Mr Perot's cardinal points, ranging from reforms of the social safety net to the balanced budget. Mr Lamm's most recent crusade - for a moratorium on all immigration, legal and illegal - may not correspond with the Texas billionaire's views.

Opinion poll evidence suggests the Reform party will do less well this year than Mr

Perot did as an independent in 1992, when he pulled in 19 per cent of the popular vote. But in his states, not least California and his native Texas, even 10-15 per cent could tip the balance in the favour of Mr Clinton or Mr Bob Dole, the presumed Republican nominee.

The great unknown is what Mr Perot will do. Before Mr Lamm came on board, Mr Perot's substantial ego had deterred other politicians disaffected with politics-as-usual from joining his cause. Even if he steps aside in favour of Mr Lamm it is doubtful that the party's official candidate would be given much rope. Last month the Federal Election Commission ruled that the Reform party would be entitled to about \$30m in federal matching funds this year if Mr Perot was its nominee.

## Sarita Kendall on an unpredictable president-elect

### Ecuador's populist choice seeks to reassure business

Mr Abdalá Bucaram has often said that Ecuador will sink or swim with him as president. The voters who gave him an 8 per cent point victory over the market-oriented Social Christian candidate, Mr Jaime Nebot, in Sunday's run-off election clearly believed the risk worth taking. Now, the 44-year-old populist has to try to meet the enormous expectations he stirred up during his theatrical electoral campaign.

Mr Bucaram's first statements as president-elect were designed to reassure, particularly the private sector, the military and the establishment he has attacked so furiously.

His personal and political unpredictability has created a concern in business circles that will be difficult to dispel. Referring to the country's economic management, Mr Bucaram said on Sunday: "The financial sectors should not worry, I shall maintain the present scheme without major changes."

Nonetheless, prices of Ecuador's Brady bonds - the country's most widely traded asset - fell 5 per cent in London in reaction to his victory. The Ecuadorian currency, the sucre, also slipped.

Mr Bucaram named his Rolodex shortly after his brother-in-law, Mr Jaime Rolando, Ecuador's first civilian president after the military regime of the 1970s. An athlete and lawyer, Mr Bucaram started his political career in the Rolando government, but Mr Rolando was killed in an aircraft crash after governing for less than two years.

Mr Bucaram, whose grandparents emigrated from Lebanon, is set to be South America's second leader of Arab extraction, after President



TEARS OF JOY: Abdalá Bucaram, left, celebrates news of his victory with son Jacobo

Carlos Menem of Argentina. His career includes a short, stormy period as mayor of Guayaquil, and then, after he was accused of fraud, voluntary exile in Panama.

With less than a third of the seats in Congress, his party will have to forge a coalition to govern. Mr Bucaram has already made pacts with some of the smaller parties and plans talks with a centre-left grouping of Christian Democrats, Social Democrats and indigenous representatives.

However, Mr Raúl Baca, a leader of this parliamentary grouping, said he sees the centre-left bloc as "a balancing source" which would seek solutions to the country's economic and social problems, but could not provide unconditional backing for a Bucaram government. He said there could be a joint strategy to fight corruption, a hot issue in Ecuador.

One of Mr Bucaram's advantages - unexpected because nearly all the three election surveys and exit polls forecast his defeat - is the fact that he not only won by a significant national margin, but he also took all the provinces except his own, Guayas.

"This is a vote of desperation, a vote by the poverty stricken," said centre-left candidate Mr Freddie Ehlers, who

was pushed into third place by Mr Bucaram in the first round of the presidential election.

Throughout his campaign Mr Bucaram used his emotional, charismatic showmanship to galvanise the poor. He was evasive on economic policy but strong on social themes, with proposals for housing, education and health.

Ms Rosalva Arteaga, vice president elect and the first woman to reach this post, will have special responsibility for social questions. She is a former education minister.

After the election Mr Bucaram reaffirmed his commitment to governing for the poor, saying that he felt "a greater responsibility for human beings than for statistics". However, he also promised "extraordinary opportunities for investors and invited businessmen for discussions. "We are going to produce and to compete."

President Sixto Durán Ballón's outgoing government has made some progress towards liberalising and modernising the economy in the last four years and has brought annual inflation under 24 per cent. International reserves are over \$1.5bn, the trade surplus increased in the first months of 1996 and the budget deficit officially stands at about 1 per

cent of GDP, though a number of experts question this figure. Although privatisation has been a constant issue during this administration, little has been achieved. Referring to the important oil sector during the campaign, Mr Bucaram said he wanted "capitalisation" by investors not privatisation. He also pledged to bring down interest rates, redefine the role of the banks, and renegotiate Ecuador's foreign debt.

One priority is to reactivate GDP growth, which sank to 2.3 per cent last year and is unlikely to be much higher than this, but again his proposals have been less than specific.

Between now and August 10, when he takes over, Mr Bucaram will be working to gain the support of centre-left politicians and businessmen. He said he hoped the present foreign minister, Mr Dalo Leoro, would stay on to provide continuity in talks with Peru, with which Ecuador fought a brief border war last year.

"Ecuador needs consensus and dialogue," said Mr Bucaram. Admitting to feeling exhausted after the long campaign, he nevertheless promised to start immediately on the process of coalition building.

## Clinton in dilemma over Cuba hijack

By Pascal Fletcher in Havana

A Cuban military officer has hijacked a Cuban commercial aircraft to the US navy base at Guantanamo Bay in the east of the island, posing an awkward problem for Washington.

According to US officials, a lone Cuban gunman, identified as Lt Col José Fernández Pupo, forced the aircraft to land at the base on Sunday and asked for asylum in the US.

Under a bilateral immigration accord agreed on May 2 last year between Havana and Washington, Cubans who try to immigrate illegally to the US by sea or to the Guantanamo Bay base are to be returned to Cuba.

Mr Ricardo Alarcon, a member of the Cuban politburo, said the incident was a clear violation of international anti-hijacking agreements. It would also violate the bilateral immigration accord if the asylum seeker was not returned, he said. US officials made clear they were treating the incident as a hijacking.

The incident comes as President Bill Clinton is considering whether to enforce implementation of the most controversial part of a new law tightening US economic sanctions against Cuba.

Mr Clinton must decide before July 16 whether to delay enforcement of a provision of the Helms-Burton law allowing US claimants of nationalised Cuban properties to sue any foreign company judged to be "trafficking" in these properties in Cuba.

Republican backers of the law, as well as sectors of the big Cuban exile community in Miami, have been pressing Mr Clinton not to exercise a waiver to delay this provision of the law for six months.

The armed hijacking is also potentially embarrassing for the US because it has been lobbying the United Nations Security Council to condemn Cuba over the shooting down last February 24 by Cuban fighters of two US-registered small aircraft crewed by Cuban exiles.

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- General Directorate of State Reserves invites the bidders to participate in international bid for purchasing of 50,000 tons milling wheat promptly.
- Bidding documents may be purchased at General Directorate of State Reserves Tirana Albania for a non-refundable fee of 150 USD for each set on the submission of a written application. Interested bidders may obtain further information at the same address.
- Bids must be submitted to General Directorate of State Reserves no later than 25 August 1996, 15.00 local time at which the bid will be opened in the presence of the bidders or their representatives.
- The bid security will be forfeited if a bidder withdraws his bid during the validity period or refuses to accept the award of the contract if selected.

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NOTICE IS HEREBY GIVEN that a Meeting of Creditors in the above matter is to be held at the The Stratford Hotel, Stratford Road, Stratford, South Yorkshire on 23rd July 1996 at 2.00pm, to consider my proposals under section 22(1) of the Insolvency Act 1986 and to consider establishing a Creditors' Committee. A proxy form if appropriate should be completed and returned to me at Arthur Anderson, 1 Victoria Square, Birmingham, B1 1BD by the date of the meeting if you cannot attend the meeting and wish to be represented, in order to be entitled to vote at the meeting, you must give to me, not later than 12.00 hours on the business day before the day fixed for the meeting details in writing of your vote.

IN THE MATTER OF  
POWERSTONES (TRADING) LIMITED  
(In Administration)  
NOTICE IS HEREBY GIVEN that a Meeting of Creditors in the above matter is to be held at the The Stratford Hotel, Stratford Road, Stratford, South Yorkshire on 23rd July 1996 at 2.00pm, to consider my proposals under section 22(1) of the Insolvency Act 1986 and to consider establishing a Creditors' Committee. A proxy form if appropriate should be completed and returned to me at Arthur Anderson, 1 Victoria Square, Birmingham, B1 1BD by the date of the meeting if you cannot attend the meeting and wish to be represented, in order to be entitled to vote at the meeting, you must give to me, not later than 12.00 hours on the business day before the day fixed for the meeting details in writing of your vote.

### AMERICAN NEWS DIGEST

## Hurricane Bertha strikes Caribbean

Hurricane Bertha, with gusts of up to 100mph, hit the US Virgin Islands yesterday, peeling off roofs, sending trees flying and causing minor damage in a violent downpour of wind-lashed rain.

It also struck the tiny Leeward islands with sustained winds of 85 mph at dawn, then swiftly pushed across the US and British Virgin Islands. By yesterday afternoon, it was expected to hit Puerto Rico. First reports indicated that there was no major damage from the first Atlantic hurricane of the season, but emergency shelters were opened, airports closed and electrical power turned off as a precaution on islands throughout the eastern Caribbean.

### Peru navy in cocaine scandal

Peru's armed forces have been hit by a drugs-peddling scandal after two naval vessels were discovered to be carrying consignments of cocaine.

The ships were discovered within 48 hours of each other last week. The first, the cargo vessel Mataram, was boarded in Vancouver on July 5 after a tip-off. Some 45kg of high-quality cocaine were found and two crew members arrested.

The Peruvian naval high command ordered an immediate search of all its ships. Two days later, another consignment, this time of 17kg, was discovered on board the Ilo, lying off Lima's port of Callao. The ship, which rarely goes to sea, is thought to have been used as a temporary warehouse for drugs awaiting transshipment. The captain and 58 crew were put under detention.

Criminal drugs organisations are believed to have stepped up their infiltration of the armed forces since airspace in northern Peru, the traditional route for export of cocaine to Colombia, is now relatively well controlled by US-supplied radar. New drugs routes out of Peru rely increasingly on land, sea and river transportation.

### Clinton in fresh video testimony

President Bill Clinton has offered his second videotaped testimony for a Whitewater trial in 10 weeks. Mr Clinton testified for two hours and 20 minutes on Sunday in the case of Arkansas bankers Mr Herby Branscum Jr and Mr Robert M. Hill. They are accused of illegally using bank funds to reimburse themselves for contributions to political candidates, including Mr Clinton in 1990 when he ran for governor, and in 1991 when he considered seeking the presidency.

A White House statement reiterated that Mr Clinton was not the first president to testify in a criminal trial. In April Mr Clinton testified as a defence witness for over four hours in the Whitewater trial of Arkansas Governor Jim Guy Tucker, and James and Susan McDougal, Clinton investment partners, all of whom were convicted.

### Brazil bashed over bean figures

The Brazilian government was under fire yesterday after it became clear that an expensive advertising campaign used misleading figures to hail the success of its Plano Real economic plan. Embarrassed officials acknowledged that key claims of the \$3m campaign, such as an 87 per cent increase in the consumption of beans and a 96 per cent surge in beef sales, were wrong.

"Yes, the figures were totally wrong. We did give the agency the correct data but they don't seem to have been very professional," said the central bank.

Bean consumption has actually risen by a modest 1.4 per cent in Latin America's largest country since the start of the economic stabilisation plan. Beef sales rose 4.5 per cent and consumption of chicken increased 16.7 per cent - not 80 per cent as the advertisements said.

## NEWS: ASIA-PACIFIC

## Japan current account surplus slips

By William Dawkins in Tokyo

Japan's current account surplus declined by just over 46 per cent in the year to May, a consequence of a continued surge in imports, further swollen by higher prices of foreign goods priced in the rising dollar.

The fall in the surplus, to ¥361.2bn (\$3.26bn) according to preliminary data from the Finance Ministry, was a factor, along with investors' belief that US interest rates are about to go up, in another rise in the dollar's value against the yen yesterday. The US cur-

rency hit ¥111.13 in Tokyo, the highest since January 1994 and 27 per cent above its level 12 months ago.

Investors' belief that the Bank of Japan may follow any rise in US rates, triggered a sharp fall in Japanese equities and government bond prices. The Nikkei 225 index fell by 1.38 per cent to 21,924.94 and long-term bond yields rose to just over 3.3 per cent. Japan's trade gap is expected to continue to shrink, pointing to further yen weakness, said economists in Tokyo.

While a weak yen is welcome to Japanese exporters, because

it reduces the foreign currency price of their goods, the government yesterday voiced alarm at the recent sharp decline in the exchange rate. "Whether it is a high yen or a low yen, steep moves are not favourable," said Mr Seiroku Kajiyama, chief cabinet secretary.

The yen-based current account gap has now shrunk for each of the past nine months. Last month's fall was slightly faster than the 45.2 per cent dip recorded in the year to April.

Within last month's balance, the goods and services account

swung to a ¥84.8bn deficit, from a ¥362.9bn surplus in the same month last year.

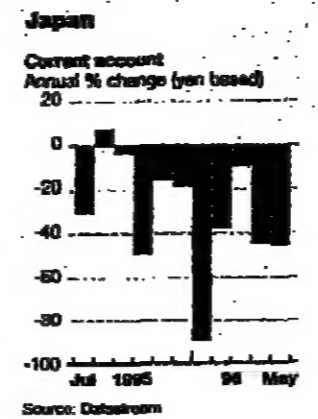
It was the second consecutive monthly deficit in goods and services and was seen by the Finance Ministry as further proof of the depth of restructuring by Japanese companies, as they shift production to cheaper locations in Asia and re-export products back home.

Mr Tadashi Ogawa, vice finance minister - the top official in the ministry - said the downward trend of the surplus was "fairly clear" and reflected structural economic change.

Imports of goods from Japanese companies' foreign subsidiaries are expected to increase, added an official.

Imports of manufactured goods rose by 36 per cent to ¥2,856bn in May - the 23rd monthly rise in a row - growing more than twice as fast as exports, up by 16 per cent, to ¥3,403bn.

The surplus on the merchandise trade account fell by 41 per cent in May to ¥477bn, the 18th monthly decline in a row. At the same time, the deficit on the services account rose to ¥361.7bn from ¥405.9bn in the



same month last year, chiefly because of a sharp increase in tourist numbers going abroad, a consequence of Japan's economic recovery.

## ASIA-PACIFIC NEWS DIGEST

## UK Tibet move angers China

China condemned the British parliament yesterday over a planned visit by the Dalai Lama, Tibet's exiled spiritual leader, warning that Sino-British relations would be affected if the trip went ahead next week. During the one-week visit, the Dalai Lama is scheduled to address a meeting of some 200 MPs at the House of Commons, after which he will have a meeting with Mr Malcolm Rifkind, the foreign secretary.

"Tibetan affairs are purely Chinese affairs, which brook no interference by any foreign government organisations or individuals," a Chinese foreign ministry spokesman said. By offering the Dalai Lama a forum in Britain, the All Party Parliamentary Group For Tibet "is supporting and abetting the Dalai Lama's activities to split the motherland on British territory," the spokesman said. The Dalai Lama's visit to Britain - scheduled to begin next Monday - is the latest in a series of visits to European countries, all of which have been roundly condemned by China. **AFP, Beijing**

## Deng son-in-law loses army post

The son-in-law of Mr Deng Xiaoping, China's senior leader, has lost his key army post, Chinese sources said yesterday. Maj Gen He Ping has agreed to resign as director of the armament department of the People's Liberation Army under pressure from generals on the communist party's central military commission. Gen He, the husband of Mr Deng's youngest daughter and confidante Ms Deng Rong, was in charge of the Chinese military's arms and equipment purchases. Ms Deng, 46, is the author of the biography of Deng Xiaoping. Mr He, which was translated into several languages last year, and which was the subject of his Deng's well publicised overseas promotional trip.

Gen He's fall illustrates the quickening loss of power of Mr Deng Xiaoping, 92, who will be 92 next month and is in declining health, observers said. For several years, he has been a target of China's old-school generals who have been critical of the growing ties between money and the army. **AFP, Beijing**

## South Korean MPs end boycott

South Korean President Kim Young-sam yesterday opened the National Assembly, ending a month-long boycott by opposition parties. The boycott had been called to protest at alleged abuses by the government in using law enforcement authorities, including prosecutors, to intimidate opposition politicians.

The opposition parties claim the government had threatened to prosecute some opposition MPs for alleged campaign violations during the parliamentary elections in April unless they joined the ruling party to provide it with a majority in the 299-member National Assembly. The ruling party won 139 seats in the election, but subsequently recruited another 12 opposition MPs to gain a slim majority. **John Burton, Seoul**

## Kim Jong-il leads mourning

In a sign that he retains control of North Korea, Mr Kim Jong-il (pictured left) yesterday led a massive memorial rally in Pyongyang on the second anniversary of the death of his father, Mr Kim Il-sung, who established the North Korean state in 1948. Although Mr Kim has not formally assumed power since his father's death, speeches made by senior government officials praised the late president's son as the country's next leader. Most analysts expect that Mr Kim, who is now in command of the military, will not be officially appointed as the country's president and head of the ruling party until next July, which marks the end of the traditional three-year Confucian mourning period.

Mr Kim is using the extended mourning period to consolidate control of the government by appointing allies, most of them technocrats, to key positions. Analysts also believe Mr Kim may have decided that a formal transfer of power is inopportune now because of food shortages in North Korea caused by floods last summer. **John Burton, Seoul**



## RESURGENT COMMUNISTS GIVE MAIN PARTIES A SHOCK

As Russian President Boris Yeltsin rejoiced over the defeat last week of his Communist rival, thousands of miles away in a Tokyo suburb a Communist was triumphing. William Dawkins reports from Tokyo.

Mr Hiroshi Yano, 49, became the first Communist mayor of a Japanese town since the 1960s after winning a mayoral election in Komae, a middle-class suburb of western Tokyo, at the weekend. He beat the challenger from the ruling Liberal Democratic party (LDP) by 10,238 votes to 8,281.

Much of Mr Yano's victory came thanks to a special reason: the

chronic gambling and enduring bad luck of his predecessor, Mr Mitsuo Ishii, an independent backed by the ruling conservative LDP.

Mr Ishii and his family disappeared in May, along with ¥1.1bn (\$8.5m) in unpaid loans, prompting a police investigation which showed that he had lost substantial sums - ¥60m in one day - in gambling binges at the South Korean resort island of Cheju.

For suburban voters of Komae, it was a potent reminder of the dark old days of the LDP in the 1980s, when barely a year passed by

tainted by financial impropriety. "I had feared such a result would be forthcoming, given the problems the former mayor had caused," said Mr Ryuzo Hashimoto, LDP prime minister.

Yet there is a parallel political point from Mr Yano's victory. The Japan Communist party, long dismissed as the unelectable extreme left of national politics, may be gaining credence.

The JCP, probably the most extreme communist party after North Korea's, has only 15 of the 511 seats in the lower house of parliament and

won only 10 per cent of the vote in the last general election in 1993.

And yet the JCP has done well in several local elections in the past year. In February it failed by only 4,000 votes to win an election for mayor of the ancient imperial capital of Kyoto.

The winner, backed by all the leading political parties squeezed in with 222,579 votes, a salutary shock for the then new government of Mr Hashimoto.

The party's success is being put down to the declining fortunes of the Social Democratic party (SDP), which has been until recently the

guardian of Japanese socialism.

The SDP abandoned its socialist principles on joining the conservative LDP, its life-long enemy, to form a coalition government two years ago.

Not surprisingly, the socialists' supporters departed with their former party's principles.

Today, like the reconstructed communists in eastern Europe enjoying a spell in power, Japan's left-wingers are once again visible, under a new label. And, say political observers in Tokyo, the JCP could do well in the next general election, likely to take place by the end of the year.

## US security adviser seeks to mend links with China

By Sophie Roell in Beijing

The US national security adviser, Mr Anthony Lake, will today hold talks with China's President Jiang Zemin and Premier Li Peng in a visit intended to put the often turbulent relations between China and the US on a more secure footing.

Mr Lake's discussions with Mr Jiang are expected to cover Sino-US relations generally, with particular focus on the possibility of holding regular

high-level meetings between the two countries.

Washington has twice this year come close to imposing sanctions on Beijing for alleged sales of nuclear technology to Pakistan and for a failure to crack down hard enough on rampant piracy of US intellectual property. The trade dispute was averted at the 11th hour. Following the US House of Representatives' approval last month of renewal of most favoured nation status for China, Mr Lake's mission will

be an opportunity to discuss some of the non-trade issues undermining the relationship between China and the US.

The most prominent of these is Taiwan. Washington incensed Beijing by sending two aircraft carriers to the Taiwan Strait in March as China's war games - aimed at frightening Taiwanese voters away from pro-independence ideas - got under way.

The US is now keen for Beijing and Taipei to resume talks suspended last year after

Taiwan's President Lee Teng-hui's visit to the US. To that end, Mr Lake will also travel to Shanghai tomorrow, to meet the chairman of the quasi-official Association for Relations Across the Taiwan Straits.

Stability on the Korean peninsula is likely to top discussions of strategic regional matters. The US and the UN are the two external powers involved in the stalled four-party talks on North-South Korean reconciliation. Mr Lake is due to visit Seoul this weekend.

The national security adviser is also expected to press Beijing on compliance with nuclear non-proliferation agreements and over human rights violations.

Diplomats in Beijing say they are surprised by the level of access given to a national security adviser. They say the

reading of the top Chinese officials to meet Mr Lake - the most senior US official to visit China since Mr William Perry, defence secretary, in October 1994 - is evidence not only of

an improved climate in Sino-US relations, but also of a willingness to discuss controversial issues.

However, they point out that even if a framework for discussing issues regularly is agreed, bilateral relations are now too complex to proceed smoothly for any length of time. With issues as diverse as trade and human rights under the spotlight in a US election year, the hiccups are likely to be as frequent as any meetings.

## Australian telecoms get a wake-up phone call

Competition is still limited but changes are likely to intensify in the next few years, writes Nikki Tait

For Bill and Verna Cocks, it was a brief moment in the spotlight. Sitting on their comfy sofa in suburban Sydney, the elderly couple chatted down a telephone line to John Howard, Australia's prime minister, while 1,000 business people listened in.

For Australia, it was billed as the start of an era. This was the first phone call on a network that did not belong to Telstra, the government-owned telecoms giant. Moreover, with Australians already enjoying limited competition in the long-distance and mobile phone markets, Telstra's last area of monopoly - local calls - had disappeared.

Or so the hype declared. In reality, Optus Vision, the consortium offering the new local phone service via a cable network, remains quiet about the number of households it can connect at present. It says only that its cabling covers "significant" portions of Sydney and Melbourne. Telstra, not surprisingly, describes the potential service area as "limited".

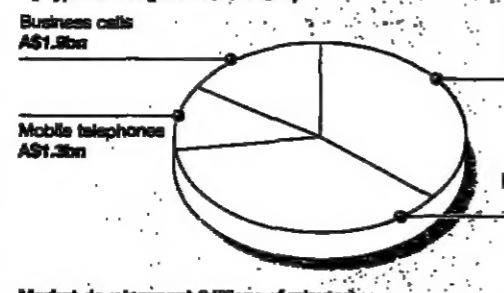
Even those households which can hook up may be underwhelmed by the savings. The "average Australian", according to Optus Vision, makes about 18-20 local calls a week. Optus is prepared to charge 20 cents (16 US cents) per (unlimited) call against Telstra's 25 cents, a saving of about A\$4 (US\$3.16) a month.

But the local call launch underlined the changes in Australian telecoms, which are likely to intensify in the next few years.

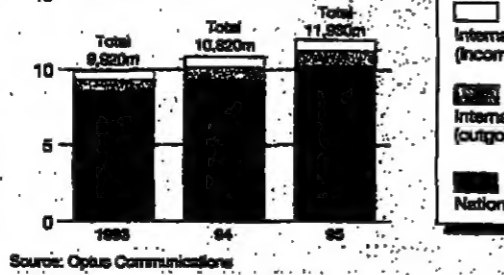
Australia has been edging towards deregulated telecoms since the early 1990s. Optus Communications - privately owned and the largest partner in the Optus Vision consortium

## Australian telecoms: getting bigger

By type of call (year to June 1996)



Market development (Millions of minutes)



Source: Optus Communications

- was created to compete with Telstra in the long-distance market in 1991. Optus and Britain's Vodafone were then licensed as rivals to Telstra in the booming cellular market.

These measures were always viewed as a warm-up act. "Full deregulation" by July 1997 was the declared aim of the former Labor government - and is the target of the new Liberal-National administration.

Senator Richard Alston, communications minister, says this should mean "a multitude of service providers with equal and non-discriminatory access to carrier facilities" and "contestable market strategies which drive prices down and quality of service up".

But the regulatory framework is still being thrashed

out. When the new government took over in March, much of Labor's legislative groundwork was re-addressed. Now, the plan is to introduce a bill in the next parliamentary session, which starts in August, and pass it by the end of the year.

A key issue is: How much "industry-specific" regulation is needed and how much can be safely left to the country's broader competition rules?

Telstra, with a strong market position, has tended to argue for the generic competition model. Optus, which has captured about 15 per cent of the long-distance market, argues in the other direction.

So far, every indication is that the government will provide some industry-specific

rules - at least for the immediate future.

Assuming this, current players see various sensitive areas. One centres on the definition of a "carrier" - which would involve certain responsibilities, including a contribution to the cost of providing a universal service.

The degree of discretion left to the Australian Competition and Consumer Commission (ACCC), which will have ultimate responsibility for enforcing the new regime, is another hot potato.

The basic notion is that the industry itself would develop "access codes", covering interconnection arrangements and the like. But these would be subject to ACCC approval - or intervention if it felt the arrangements were unsuitable.

A separate problem perceived by some players is the time pressure on the government to map out the regulatory framework, so it can proceed with its planned partial privatisation of Telstra, assuming parliament agrees. "There's always the danger of hasty legislation being poor legislation," cautions one service provider.

Given these uncertainties, no one is keen to predict how the Australian telecoms market will unfold. A\$12.1bn (US\$8.5bn) in 1995 - will ultimately develop.

The existing carriers, Optus and Telstra, point out they already face growing competition from "resellers" - such as BT and Telecom New Zealand (TCNZ) - especially for large corporate and government contracts. Last month, for example, A\$7 Telecom Australia won a A\$100m two-year contract to manage the South Australian government's telecoms business.

But outsiders, such as Telecom New Zealand, predict competition will probably intensify in the international, long-distance markets, with less initial activity in the local market.

"We wouldn't expect another national player in the local market," says Mr Stuart Goodin, manager of strategic development for TCNZ.

But he does suggest that some niche cable operators running private metropolitan networks could develop. The idea has already been mooted in New Zealand, which deregulated its telecoms more speedily in the late 1990s.

On prices, there is general agreement the overall direction can only be down. Although

limited competition so far has brought some cuts in charges, Australia has tended to lag industrialised countries generally. A Bureau of Industry Economics study last year found services charges for business users, for example, fell 8.9 per cent between 1990 and 1994, compared with 15.3 per cent for OECD countries on average.

For international calls, the reduction was 28.4 per cent, compared with the OECD's 34.5 per cent.

Only on mobile calls did Australia outperform - with a 26.3 per cent drop against 20.6 per cent. "Telecommunications prices are falling, but they have further to fall," the bureau concluded bluntly.

## Cambodia aid tied to logging pledge

By Ted Bardackis in Bangkok

Cambodia's apparent acquiescence to international donor demands for broader reforms and a more "transparent economy" is likely to earn it pledges of \$1bn in aid this week.

Aid accounts for about half of all Cambodian government expenditures. At a donor meeting in Tokyo on Thursday, donors will pledge some \$940m after receiving assurances from Cambodia that it is making more transparent its "logging activities" and curbing defence spending.

More than \$1.5bn in international aid has been given to Cambodia since a 1991 UN-brokered peace accord led to elections in 1993. Another \$760m has already been pledged over the next three years.

Representatives of donor countries and aid organisations said Cambodia was likely to get nearly all its requested amount. But the government would be strongly reminded that it would be bound to honour promises made ahead of the meeting if pledges were to be followed through.

"I think they'll get the commitments," said the representative of one leading donor organisation. "But the cheques haven't been written yet."

Recently the Cambodian government assured donors that changes would be made to the country's haphazard - and reckless, say environmentalists - policy of secretly awarding concessions on large amounts of forest land for logging. Last month, doubts about whether revenue from these concessions would be accounted for

in national accounts led the International Monetary Fund to withhold a scheduled disbursement of \$20m to the Cambodian government.

Analysts said this kind of pressure - temporarily suspending disbursement until policy changes are implemented - would become a more common, if unwritten, component of the aid package being discussed this week.

Donors will also be watching to see whether the Cambodian government follows through on two main recommendations: to reduce the amount of military expenditure and to widen its revenue base. Both these are key issues if Cambodia is to wean itself from dependency on aid.

"Defence and security expenditures account for almost 60 per cent of all current expendi-

tures, and have exceeded budgetary targets. This current allocation does not promote economic growth nor enhance social welfare," said the World Bank, one of the sponsors of the Tokyo meeting, in its most recent assessment of the Cambodian economy.

Questions of democracy and human rights will not be on the agenda in Tokyo, but donors are worried about political stability within the often squabbling two-party coalition government. Hare Cambodia will also have to follow through on its promises.

"We will tell them we have political stability, we are working together... but we must avoid still having arguments when we come back," first prime minister Norodom Ranariddh said as he left to attend the Tokyo meeting.

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## INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

GERMANY									
Year	Unemployment rate	Composite leading indicator	Yearly % change	Real GDP volume	Industrial production	Unemployment rate	Yearly % change	Composite leading indicator	Yearly % change
1995	7.1	100.0	91.3	100.0	100.0	7.1	100.0	89.7	91.3
1996	6.4	98.4	95.5	100.8	102.2	6.4	139.9	98.0	95.5
1997	6.2	106.3	96.7	107.4	102.6	6.2	149.5	100.0	96.7
1998	6.2	105.1	100.2	110.5	108.3	6.2	165.1	95.6	100.2
1999	6.5	105.1	100.2	114.2	111.4	6.5	218.6	97.1	100.2
2000	6.5	105.1	100.2	122.5	117.2	6.5	267.0	95.1	100.2
2001	6.5	105.1	100.2	130.5	117.9	6.4	327.9	95.1	100.2
2002	6.4	105.1	100.2	127.7	116.5	6.4	287.9	98.0	100.2
2003	6.1	105.1	100.2	122.3	109.2	6.1	299.5	100.0	100.2
2004	6.8	105.1	100.2	120.4	113.9	6.8	249.4	100.0	100.2
2005	6.8	105.1	100.2	120.4	114.2	6.8	267.9	100.7	100.2
2nd qtr.1995	7.1	104.9	106.0	-	-	1.7	276.3	101.7	101.7
3rd qtr.1995	6.4	106.1	107.6	-	-	0.2	265.5	100.4	100.4
4th qtr.1995	3.3	108.9	108.4	-	-	-0.7	258.0	100.7	100.7
1st qtr.1996	3.3	110.7	108.8	-	-	-2.0	272.9	98.7	98.7
2nd qtr.1996	3.2	104.5	108.0	0.6	0.6	8.8	273.2	101.2	101.2
3rd qtr.1996	3.2	104.2	108.0	0.6	0.6	8.8	281.3	100.6	100.6
4th qtr.1996	3.2	105.8	107.0	-0.3	-0.3	-	264.6	100.7	100.7
1st qtr.1997	3.2	105.4	107.0	-1.3	-1.3	-	261.3	100.4	100.4
2nd qtr.1997	3.2	105.4	107.0	-3.3	-3.3	-	258.0	100.4	100.4
3rd qtr.1997	3.4	106.0	107.9	-2.9	-2.9	-	264.6	100.6	100.6
4th qtr.1997	3.4	106.6	108.9	-5.0	-5.0	-	254.6	100.7	100.7
1st qtr.1998	3.4	111.2	109.4	0.4	0.4	-	274.5	100.7	100.7
2nd qtr.1998	3.4	110.1	109.0	-6.0	-6.0	-	260.6	100.7	100.7
3rd qtr.1998	3.4	104.1	114.6	-2.5	-2.5	-	261.3	100.6	100.6
4th qtr.1998	3.1	107.4	108.8	-1.7	-1.7	-	267.1	100.7	100.7
1st qtr.1999	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.1999	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.1999	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.1999	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2000	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2000	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2000	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2000	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2001	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2001	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2001	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2001	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2002	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2002	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2002	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2002	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2003	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2003	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2003	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2003	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2004	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2004	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2004	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2004	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2005	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2005	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2005	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2005	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2006	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2006	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2006	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2006	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2007	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2007	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2007	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2007	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2008	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2008	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2008	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2008	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2009	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2009	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2009	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2009	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2010	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2010	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2010	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2010	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2011	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2011	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2011	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2011	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2012	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2012	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2012	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2012	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2013	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2013	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2013	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2013	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2014	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2014	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2014	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2014	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2015	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2015	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2015	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2015	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2016	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2016	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2016	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2016	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2017	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2017	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2017	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2017	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2018	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2018	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2018	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2018	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2019	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2019	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2019	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2019	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2020	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2020	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2020	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2020	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2021	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2021	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2021	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2021	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2022	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2022	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2022	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2022	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2023	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2023	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2023	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
4th qtr.2023	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
1st qtr.2024	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
2nd qtr.2024	3.1	107.4	108.8	-2.1	-2.1	-	287.1	98.7	98.7
3rd qtr.2024	3.1	107.4	108.8	-2.1	-2.1	-	287		

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# FINANCIAL TIMES COMPANIES & MARKETS

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## IN BRIEF Tele Danmark in first-half warning

Tele Danmark, the state-controlled telecommunications company, warned that its first-half results would be reduced by a total of about DKK600m (\$102m) compared with the same period last year because of marketing expenditure on cellular phones and price cuts in the cellular and international markets. Shares in the group fell DKK12, or 4 per cent, to DKK285 in Copenhagen. A year ago the group reported first-half profits of DKK2.95bn. Page 16

**Burda withdraws Europe Online funding**  
The future of Europe Online, the Luxembourg-based multinational online service, was in question last night after Burda, the German publishing group which is its largest shareholder, said it was withdrawing funding of the venture. Europe Online said it was holding talks with new potential partners, thought to include CompuServe, the US online group, and was engaged in a "major restructuring process". Page 16

**National Mutual Life to fix listing timetable**  
National Mutual Life, Australia's second largest life assurance group, confirmed that a decision would be made this month on the timetable for listing its parent company, National Mutual Holdings. The listing is likely to value the holding company at more than A\$2bn (US\$1.56bn). Page 19

**Israeli and Jordanian airlines square up**  
The recent opening of air links between Israel and Jordan - a direct result of the 1994 peace treaty - has sparked a price war between the two nations' state-owned airlines, Royal Jordanian and El Al, which now must compete for the lucrative long-haul market. Page 19

**Tomkins plans acquisitions worth £400m**  
Tomkins, the UK industrial conglomerate, has pledged to use almost £400m (\$624m) cash to make bolt-on acquisitions and develop Cates, the US components group it is acquiring for \$1.57bn. Tomkins reported annual pre-tax profits of £22.9m, up from £20.3m a year earlier. Page 20; Lex, Page 20

**Unigate in £77m margarine purchase**  
Unigate is paying £77.3m for the European margarine and spreads business of Kraft Foods International in an acquisition which will heighten competition in the UK with Unilever, the dominant company in the sector. Page 20

**Southern Peru Copper may lift output 70%**  
The US-owned Southern Peru Copper, the country's largest producer, is planning a big expansion of its Peruvian operations. Page 24

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FRANKFURT (DEM)		
BMW	530	+ 11
Mercedes	529	+ 6.2
Volvo	94.5	+ 4.5
PARIS (FFr)		
Alcatel	311.5	+ 0.3
Elf	314	+ 0.5
Elf	315	+ 0.5
NEW YORK (US\$)		
Alcatel	311.5	+ 0.3
Elf	314	+ 0.5
Elf	315	+ 0.5
LONDON (pence)		
Alcatel	144	+ 11
Elf	145	+ 11
Elf	146	+ 11
TOKYO (Yen)		
Alcatel	144	+ 11
Elf	145	+ 11
Elf	146	+ 11

## Sumitomo to take on Star TV network

By William Dawkins  
in Tokyo

Sumitomo Corporation, the Japanese trading company, is to launch what it claims will be the world's first quadrilingual television station, to broadcast Japanese-produced entertainment programmes to 10 Asia-Pacific countries from January.

Jet TV, a 24-hour channel to be based in Singapore under Sumitomo management, will compete with Rupert Murdoch's Hong Kong-based Star TV network. Viewers will be able to choose

Japanese group to launch Singapore-based television station with a choice of four languages for viewers in 10 Asia-Pacific countries

from Japanese, Thai, Chinese and English by touching a button on a remote control handset. This is the same as for bilingual Japanese and English programmes broadcast in Japan.

Sumitomo's first foray into foreign broadcasting is the latest in a long line of Asian diversifications by Japanese trading houses eager to find more profitable ventures to add to the low-

margin export-import businesses which form the core of their activities.

Sumitomo's main partner will be Telecommunications (TCL), the largest US cable television operator, with which it established Jupiter Programming, an equally-owned programme-

buying venture, in February. Jupiter will take a 65 per cent stake in Jet TV and the Singapore unit of Sumitomo will own another 5 per cent. The remaining 30 per cent is to be divided among Tokyo's five leading commercial television stations, which will provide drama, variety shows, cartoons and documentaries.

Jupiter expects to complete negotiations on the final distribution of shares, and the terms under which the stations will

provide programme material, within the next few weeks. Initially, a single channel will be broadcast to 5m cable and satellite subscribers, in Taiwan, Hong Kong, Singapore, Thailand, the Philippines, Malaysia, Indonesia, Australia, New Zealand and China, via the PanAmSat 2 satellite.

Sumitomo has plans for additional channels and hopes to

expand geographical coverage to include TCI's 13m cable subscribers in the US. The only Japanese television seen elsewhere in Asia is broadcast by NHK, the dominant public broadcasting corporation. Sumitomo believes that Japanese television programmes are of a higher quality than Asian-produced output. While that might seem a startling claim to Anglo-Saxon aficionados of Japanese game shows, it does suggest potentially lucrative Asian demand for Japanese material transmitted in local languages.

## Hanson cuts assets by \$5bn to meet US standards

By Tim Burt

Hanson, the industrial conglomerate, yesterday marked the latest stage of its four-way demerger by announcing a \$3.3bn (\$4.9bn) reduction in assets following accounting changes and write-downs in the value of its US mineral reserves.

The write-downs at Peabody, the largest coal producer in the US, and Hanson's Cornerstone aggregates subsidiary will bring the company into line with US

accounting standards on the treatment of "long lived assets".

Mr Derek Bonham, chief executive, said the move would have no impact on operational cash flow and added: "It in no way reflects on the accuracy of previous accounts."

Some industry analysts, however, suggested Hanson might have overvalued the assets of both Peabody and Cornerstone in the past - a charge rejected by the company.

It said the book value reductions would cause "a small reduction in future depletion charges and a consequent small increase in profit".

In total, the book value of mineral reserves at Cornerstone have been reduced by \$2.3bn to \$1.3bn and by \$500m at Peabody to \$1.5bn. A further \$300m charge is being made against Peabody's reserves to cover accounting changes over industry liabilities.

Once the demerger is complete, Cornerstone will remain part of

the rump Hanson business, while Peabody will join the Energy Group along with the Eastern regional electricity generator.

Mr Bonham said profits at Peabody would fall by about \$70m a year following a change in the way the US company treated coal industry liabilities.

The group - which in 1990 created \$1.5bn of provisions to meet payments to the Federal Coal Industry Black Lung Fund and Abandoned Mined Land (AML) Fund - said it would treat these

liabilities in future as an annual fee charged against revenue.

The black lung fund was set up in 1977 to compensate miners suffering from the illness, while the AML fund was formed in the same year to meet the cost of reclaiming former mines.

As part of the accounting changes, Hanson has removed \$1.2bn of its \$1.5bn provisions from Peabody's balance sheet and plans to charge \$300m of previous payments to profit and loss reserves. Mr Bonham said

this would cut the carrying value of Peabody's coal reserves by \$1.5bn.

On a pro-forma basis, the combined effect of the \$70m reduction in profits at Peabody and the new treatment of long lived assets would have reduced Hanson's pre-tax profits last year from \$1.28bn to \$1.22bn. The long lived asset change had a beneficial effect of \$14m.

In London, Hanson shares fell 4p to 171 1/2p. Lex, Page 20

## Spate of offerings highlights desire to diversify funding

Asset securitisation, for years a growing business in the US, is starting to take off in Europe, driven by investors' search for yield and issuers' efforts to diversify their funding.

A recent spurt of offerings has highlighted the growing European interest in asset-backed securities - bonds collateralised by cash flows from underlying assets.

The latest landmark deal is a \$740bn (\$7.8bn) issue of asset-backed floating-rate notes for EPFR (Etablissement Public de Financement et de Restructuration), an entity set up by the French government in November 1986 to administer the financial support provided by the state to Credit Lyonnais, the troubled French bank, by facilitating the liquidation of some of the bank's assets.

The deal, expected to be launched tomorrow, will be the largest offering to hit the international bond markets. This year has also seen a flurry of issues in France, Italy, Spain, Germany and the UK, and more deals are expected from the Nordic region.

Standard & Poor's, the international credit rating agency which rates the bulk of European asset-backed securities (ABSs), has rated \$10.8m of such bonds in the first six months of this year, compared with \$6.9m for the whole of last year.

A combination of factors is driving this trend: the desire by banks and other financial institutions to lighten their balance sheets and make better use of their capital; investors' appetite for bonds with high credit ratings and attractive yields; and governments' desire to tap the capital markets for off-balance-sheet funding to relieve pressure on their budgets and help them attain the Maastricht criteria for European Monetary Union.

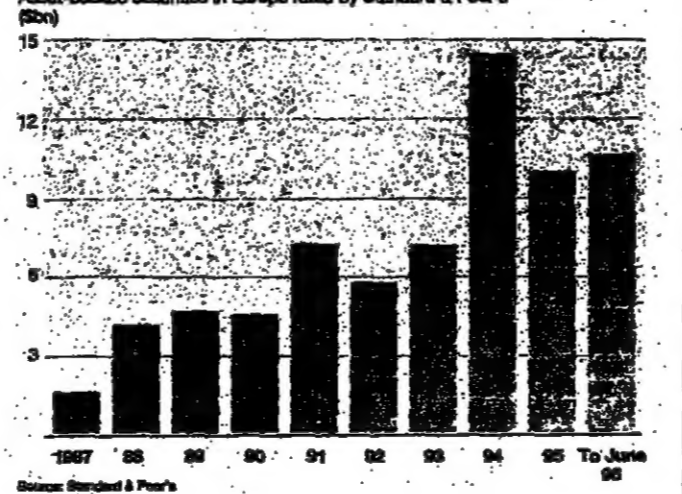
Securitisation is a way for financial institutions or companies to remove assets from their balance sheets, freeing capital and diversifying their funding sources. These assets are usually pooled in a bankruptcy-remote vehicle which raises money by selling securities to investors. Principal and interest payments on the securities are funded by the cash generated by the assets.

ABSs can be collateralised by an increasingly wide range of asset types, including residential and commercial mortgages, consumer loans, trade receivables, car loans or credit card receivables. More exotic asset classes have been securitised in the US, including health club membership payments and New York taxi medallions - licences enabling their holders to drive a cab in that city.

However, unlike the US, Europe has no natural supply of large, homogeneous pools of securitisable assets, and its ABS market is unlikely to rival that of the US.

## Europeans join the asset-backed securities club

The growth of the market



from the UK government. "The most exciting trend in Europe is not so much the increasing volume of asset-backed securities being issued, but the diversity of asset classes being brought to the market," says Ms Kimberly Slawek, co-head of European structured finance at Fitch Investors Service, the US rating agency. "We are being asked to analyse emerging asset classes that have never been securitised before."

Institutions can have many reasons to issue ABSs. Some treas-

## More exotic asset classes have been securitised in the US

urers, for example, may wish to diversify their funding sources. "We want to reduce our dependency on the Dutch market and access international investors," says Mr Matthijs van den Adel, a managing director at Fortis Investments, part of Fortis, the Dutch-Belgian financial group which this week plans to launch the first guildler-denominated ABS, \$1.6bn (\$24m) of 10-year fixed-rate bonds backed by residential mortgages which have been guaranteed by the Dutch government.

For issuers who have a weak credit rating or none at all, launching ABSs, which are usually structured to obtain a triple-A rating, is a useful way of securing competitive funding costs. European financial institutions, faced with stiff competition in the banking sector, employ securitisation to make better use of their capital. They can achieve this by selling some of the assets they hold capital against, freeing precious resources.

"Even if a bank has a lot of capital, why tie it up against a low-yielding asset?" says Mr Kurt Sampson, director, structured finance at Standard & Poor's in

## Bermuda businessmen link to fund E Europe groups

By Vincent Boland in Prague

Mr Viktor Koleny, the emigrant Czech businessman, and his Bahamas neighbour and business partner Mr Michael Dingman are to create a joint investment vehicle targeted at east European companies.

Mr Koleny is merging his Harvard Industrial, one of the largest investors on the Prague stock exchange, with Stratton, Mr Dingman's investment company which owns stakes in Czech and Russian companies and oil and gas interests in the United Arab Emirates.

The new venture, known as Deventree, will have a net worth of \$1.4bn, according to the companies. Harvard and Stratton each own 50 per cent. The venture's assets will include Harvard's large but undiversified investment portfolio and Stratton's Czech and Russian stakes, mainly in pulp and paper, utilities, media and shipping.

Mr Dingman yesterday said Deventree would seek stakes of more than 50 per cent in new investments in eastern Europe's emerging markets, restructure them and either sell them to strategic investors or float them. The targets would include companies with under-exploited assets and those with unique franchises, he said.

Mr Koleny and Mr Dingman first joined forces in October when Stratton bought stakes in several leading Czech companies in alliance with Harvard. Mr Koleny said the merged group would "secure a substantially greater spread of risk and increase opportunities for joint investing in other countries of eastern Europe".

Deventree, like Stratton, is registered in Cyprus. Mr Dingman said it would be listed in London and New York as the need for fresh capital arose "and the company develops a track record".

Harvard Industrial was created this year through the conversion and merger of six investment funds run by Mr Koleny's asset management company. The new structure avoided the impact of rules requiring greater disclosure requirements for funds that took effect on July 1.

Harvard has not released details of its portfolio or investment strategy for nearly a year, while the conversion has caused its share price to collapse. This has alienated many investors and drawn fire from analysts who complained about Mr Koleny's reluctance to release information.

Analysts yesterday were cautious about the implications of the new venture for Harvard shareholders.



Dingman: joining forces

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Thai deal, Page 22  
Conner Middelmann

## COMPANIES AND FINANCE: EUROPE

## Tele Danmark shares slip on profits warning

By Hilary Barnes  
in Copenhagen

Tele Danmark, the state-controlled telecommunications company, yesterday warned that its first-half results would be hit by marketing expenditure on cellular phones and by price cuts in the cellular and international markets.

Shares in the group yesterday fell DKr13, or 4 per cent, to DKr235.

Tele Danmark said rising marketing costs for cellular phone subscriptions and handset sales would reduce profits before net financial items by about DKr600m (\$94.9m) compared with the first half of last year. Price reductions for cellular and international calls would cut profits by a further DKr100m, the group said.

A year ago the group reported first-half profits of DKr2.26bn, rising to DKr3.1bn

for the full year. It did not specify its forecast for this year's first half, which will be boosted by the inclusion of profits on the group's 16.5 per cent share in Belgium's Belgacom on a pro rata basis with effect from April 1 this year.

Tele Danmark is exposed to fierce competition in both international traffic and cellular phones.

With the complete liberalisation of the Danish telecoms

market from July 1 this year, 18 months ahead of the European Union's date for the completion of telecoms liberalisation, the group is expected to face competition in domestic fixed line voice telephony as well before long.

Tele 3, a subsidiary of Sweden's Kinnevik group, has signed an interconnection agreement with Tele Danmark, enabling it to use the Tele Danmark infrastructure to

market a competing service. Several other operators, including Global One, set up by France Télécom, Deutsche Telekom and Sprint of the US, and Telia, the Swedish state-owned operator, are also interested in entering the Danish market.

Tele Danmark said cellular subscriptions were up 210,000, or 38 per cent, to 760,000 in the first half of this year, and by 67 per cent since the end of June

last year. All the growth has come in the market for GSM, the international standard for digital cellular telecoms standards. But marketing costs have soared from DKr110m in the first half of 1995 to DKr600m.

There are about 1.2m cellular phone subscribers in Denmark, representing one in four of the population. Tele Danmark claims 60 per cent of the market.

## Telia awaiting EU deregulation

Swedish telecoms group looks abroad as competition mounts at home

As a state-owned operator in one of the world's most liberalised telecoms markets, Telia of Sweden is something of an anomaly. The former monopoly, which needs substantial investment to meet stiff competition from new rivals, has long been touted as a candidate for privatisation.

Following full deregulation at the start of 1993, Telia's once-closed market has opened to newcomers, incursions by companies including British Telecom, Deutsche Telekom and France Telecom have led to falling margins at the Swedish group.

Telia has lost a quarter of its market for international calls and around 7 per cent of long-distance traffic. Only in local calls - where low tariffs make margins unattractive to competitors - has it held its ground.

Mr Lars Berg, Telia chief executive, is reluctant to be drawn into talk of privatisation, insisting it is an ownership matter.

Unofficially, though, management sees flotation as the best answer to Telia's capital needs - a view unanimously shared by industry observers. "Sweden is a very competitive market by European standards and you usually expect competition and privatisation to go hand in hand," says Mr Douglas Wright, European telecoms analyst at Salomon Brothers in London.

Telia has demanded a cash injection from the government

of up to SKr10bn (\$1.48bn) over the next five or six years, saying it can no longer fund internally its entire capital requirement of around SKr12bn a year.

"Our equity ratio is only 32 per cent and we think that in this new and more turbulent world we need a stronger balance sheet," Mr Berg says. He can expect few favours. Last year the Swedish company was forced to share with France Telecom a SKr12bn contract for telephony services to central and local government. A state memorandum last month did contain a commitment to new, unspecified, funding, but the Social Democratic administration appears to have balked at any sell-off. "Privatisation is not politically achievable in the current climate," one government official says.

Denied free access to most European markets and unable

to raise capital independently, Telia's hands are tied. It has sought to compensate by doubling prices for local calls since 1993, but this has been more than offset by a 50 per cent fall in tariffs for long-distance calls. Pre-tax profits were SKr3.23bn in 1995, against SKr2.95bn in 1994. However operating income fell from SKr13.2bn to SKr12.8bn.

For Mr Berg, the deregulation of European telecoms markets in 1998 cannot come soon enough. Since arriving from telecommunications equipment group Ericsson two years ago, he has worked to orient Telia towards a commercial market. The workforce has been cut by more than a quarter since 1991, from 46,000 to 33,000, as part of what Mr Berg terms his "cultural revolution."

"We are under a great strain but hopefully this will mean that after 1998, we will come

out as a very lean and mean player which has learned to live with the competition. That will not be true for many of our European competitors," he says.

Faced with contracting margins and slack domestic growth, he has focused Telia's strategy on opportunities abroad. Unisource - a joint venture with the national operators of Spain, Switzerland and the Netherlands - has formed a vehicle to offer data and telecoms packages to mainly corporate clients in Europe.

The alliance, which collaborates with AT&T of the US, is aiming to develop a national operating presence in the main European markets - the UK, Germany, France and Italy - ahead of liberalisation.

In addition, Telia has licences for fixed telephony services in the UK, and has established or planned operations in Norway, Denmark, Finland, Ireland, Poland, Estonia, Latvia and Lithuania. On the mobile side, it has a presence in countries as far-flung as Sri Lanka and Ecuador.

Mr Berg's hope is that foreign growth and the booming mobile sector will plug the gap from the Swedish fixed market. Cellular revenues now account for 25 per cent of turnover and aggressive marketing has helped Telia retain a 70 per cent market share, despite the challenge of three other mobile operators.

Mr Berg predicts continued robust growth in this sector,



Long distance: Telia is seeking entry to main European markets

forecasting that nine out of 10 customers in Sweden will be mobile users by 2001.

He also has high hopes for Telia's drive to deliver broadband services to all Swedish households by 2004 using asymmetric digital subscriber line (ADSL) technology.

Mr Berg sees a "superinternet" comprising digital TV, interactive entertainment and electronic shopping. The network, undergoing trials in Stockholm, is likely to cost in excess of SKr25bn to build.

However, the initiative has raised some eyebrows. "Telia is

the only telecoms company in the world that is fully committed to ADSL," one London-based analyst says.

"You could say that they are looking to the future but the research is showing that the investment is marginal because people don't pay enough for the service."

Mr Berg brushes off the objections. In the competitive world of tele and data communications, he knows that if Telia does not take the plunge, a rival company will.

Greg McIvor

## Burda withdrawal puts Europe Online future in jeopardy

By Neil Buckley in Brussels  
and Simon Gray  
in Luxembourg

The future of Europe Online, the multilingual online service, was in question last night after Burda, the German publishing group which is its largest shareholder, said it was withdrawing from funding the venture.

The Luxembourg-based company said it was holding talks at an "intensive level" with new potential partners, thought to include Compu-

Serve, the US online group, and was engaged in a "major restructuring process" which would involve changes in shareholding structure.

It refused to comment on reports that it would today seek to appoint an administrator in the Luxembourg Commercial Court.

Burda said it had decided to "change its online portfolio", and concentrate on Internet content production, particularly in the German market, and therefore decided to stop current financing of Europe

Online. The German group is thought to have provided about DM30m (\$19.6m) in financing to date.

Europe Online said Burda, which holds a 26 per cent stake, plus another 7 per cent in trust, had made "no decision" on the future of its shareholding.

"We are trying on a more intensive level to conclude negotiations with a new partner," Europe Online said.

Europe Online, in which Pearson, owner of the Financial Times, has a stake, aimed

to provide a "European" alternative to US services, such as America Online and CompuServe, with a range of information and entertainment services in the main European languages. But it has had a troubled history.

It made a significant shift in strategy only months before its much-delayed launch last December from being a "closed" subscriber system - with a contract already signed to use the Interchange software of AT&T, one of its shareholders - to an open domain

on the Internet, using Netscape software.

At the same time it lost a leading shareholder, France's Matra Hachette, and its then chief executive, Mr Christian Bruck.

But the Luxembourg service said yesterday it had 25,000 paying subscribers - who gain the right to a "home page" on the service, and was achieving 450,000 Internet "hits" a day.

Services have already been launched in German, French, English and Luxembourgish,

with Dutch-language services due to be launched soon.

Apart from Burda, main shareholders are said to be the Luxembourg state-owned banks SNCF and BCEI with 10 per cent, Pearson with less than 10 per cent, AT&T, Meigher Communications, and several small Luxembourg investors.

Although no figures have been released, losses at Europe Online are thought to have reached LFr62m (\$18.8m) last year, after start-up costs, from LFr40m in 1994.

This announcement appears as a matter of record only.

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## NEWS DIGEST

## Italy sells remaining 6.9% holding in Imi

The Italian government's privatisation programme for 1997 remained on course yesterday with the successful sale of the last of its available shares in Imi, the banking group, for L501bn (\$327m). The sale of the state's 6.9 per cent stake in Imi to domestic and foreign institutions completes Imi's privatisation, which started in February 1994 when 36.5 per cent of the group's share capital was sold in a public offering for L1,800bn.

The shares sold yesterday, via Imi and SBC Warburg, were priced at L12,040 each, representing a 2 per cent discount to Friday's closing price of L12,236. Despite difficult market conditions, following the upset on Wall Street last Friday, Imi shares held up well, closing down L226 at L12,060 yesterday.

The government is left with a residual 1.1 per cent shareholding in Imi, which is set to be distributed next February in the form of bonus shares to investors who took part in 1994 public offering. The final tranche of Imi shares comes less than a month after the government sold \$2.1bn worth of bonds which are exchangeable into virtually all of its 34.38 per cent stake in Imi, the insurance company.

Mr Mario Draghi, director-general of the Italian Treasury, yesterday reaffirmed that the next stage of the government's privatisation programme would be the autumn sale of a second tranche of shares in Eni, the energy and chemicals company. The government has yet to announce how much of Eni's share capital it plans to sell off in October, although it is widely expected to be 15 per cent, the same percentage which was sold off last November. However, the rise in Eni's share price since flotation means that at current prices the government stands to raise L6,000bn from selling a further 15 per cent of Eni, compared with the L4,300bn it raised last November.

Antonia Sharpe, London

## Viag seeks US investors

Viag, the German industrial conglomerate, hopes to attract US investors through an American Depositary Receipt programme which the group will launch in August. The ADR programme comes after Mr Georg Obermeier, chief executive, said recently that the Munich-based group, which is built around the Bayerwerk electricity utility, had so far failed to excite investors outside Germany.

Viag said yesterday it did not yet know how the issue would be taken up but "would begin testing the waters" in the US in August. An unspecified number of Viag shares are held by London-based investors while "significantly less" are held in New York, the company said. The Viag ADR will be worth one tenth of a Viag share or about \$40 at current share prices. The state government of Bavaria holds 25.1 per cent in the Munich-based group, a stake which it plans to sell before September 1998 and before the next state elections.

Bayerische Hypothek and Bayerische Vereinsbank, the two leading Bavarian banks, last week raised their stakes in Viag to 10.05 and 10.5 per cent respectively after last August's takeover, the regional Bavarian utility which will become a fully-owned Bayerwerk subsidiary, reduced its holding from 15 to 4.86 per cent.

Michael Lindemann, Bonn

## Buy-out at Schaffner

Schaffner Elektronik, which manufactures filters which limit electrical interference on power lines, has been sold to its local management in a SFr159m (\$126m) deal which is being billed as Switzerland's largest MBO to date. Schaffner Elektronik, which has raised its turnover from SFr20m to SFr130m over the past 10 years, claims to be the world's leading company in Electro Magnetic Compatibility.

It employs 1,076 people and has production plants in Switzerland, Thailand and Ireland. It was put up for sale some months ago by its Swiss parent, Elektrowatt, after it decided to refocus its activities and pull out of electronics. Mr Ian Forrest, managing director of HSBC Private Equity, who led the deal, said Switzerland, like many Continental European countries, has been slow to embrace the concept of MBOs because Swiss companies had not been under the same pressure to restructure as had UK companies. The total value of buy-outs in Switzerland last year was \$680m, compared with \$2.6bn in the UK.

Mr Forrest believes this is changing as Swiss companies are forced to adjust to a high exchange rate and diversify peripheral businesses so they can concentrate on their core strengths. HSBC Private Equity and Zurichmont Finanz, an HSBC affiliate in Switzerland, provided the equity funding and the acquisition debt, understood to be roughly half the SFr159m purchase price, has been arranged by The Fuji Bank.

The Schaffner buy-out team is led by Mr Alex Oechslin, chief executive, Mr Richard Müller, sales and marketing, Mr Heinrich Kunz, test equipment director, and Mr Thomas Gröblich, components director. All four have been with Schaffner for more than 10 years.

William Hall, Zurich

## Solvay sees profits holding up

Solvay, the Belgian chemicals group, reiterated yesterday that it expected 1996 profits to match those of 1995 or be slightly higher. "As we said in the June annual meeting, we hope our 1996 results will be near those of 1995, or slightly higher if the European outlook improves in the second half of the year," Mr Daniel Janssen, chairman, told the French business daily, La Tribune Desaffaires.

The company posted 1995 profits of BFr12.51bn (\$397m), up 57 per cent from the previous year. He said that after a "very bad" December they were seeing regular monthly progress. Mr Janssen said Solvay had no plans to follow the lead of other chemical and pharmaceutical groups and demerge any of its activities. He added that the company "was extremely confident of growth prospects in the pharmaceutical sector," noting that pharmaceutical research and development had grown to two-thirds of total company spending from 40 per cent six years ago.

Janssen said the results of the restructuring launched in 1991 had helped the company boost productivity sharply and the company had sold off a number of non-core assets. "We must continue to dispose of certain assets, while at the same time acquiring small and medium sized companies in sectors in which we wish to grow - notably health," he was quoted as saying. China, he added, was one of Solvay's priorities for investment in the chemicals field as the company sought to boost turnover outside Europe. It already had two joint venture companies in China and three other projects were under negotiation.

Reuters, Paris

## Poland considers bank sell-off

Poland is considering selling between one-third and one-quarter of the country's largest commercial bank, Bank Handlowy w Warszawie, before it is listed on the Warsaw Stock Exchange, a Handlowy official said yesterday. "The treasury could sell roughly between one-third and one-quarter of the bank when it enters the bourse," said Mr Slawomir Horbaczewski, director of Handlowy's Capital Markets Centre. He said Bank Handlowy would begin the process of entering the Warsaw bourse next year and it should take one to three years for it to be listed. "Next year we plan to start the procedure of entering the bourse and it should take between one and three years to complete," Mr Horbaczewski said.

Earlier Bank Handlowy, which in 1995 had a balance sheet total of 9.93bn zlotys (\$3.6bn) in 1995, said it was not seeking a strategic investor. After the first five months of 1996 the bank recorded a net profit of 275.5m zlotys, against 421m zlotys for the whole of 1995. Its gross profit last year was 722m zlotys.

Reuters, London

## Valeo sales rise 15%

Valeo, the French automotive components group, saw sales rise 15.7 per cent to FF15,066m (\$2.91bn) in the six months to June from a year earlier. It expects net profit for the period to be "of the same order" as the first half of 1995, when it posted net profit of FF2,628m. Valeo said it expected sales for the whole of 1996 to rise to FF25.5bn from FF22.25bn last year.

AFP News, Paris



In Europe, no one carries more weight in the world financial market than the new Chase client.

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That means we will work harder to know your needs more intimately than any bank in the world. We will make every effort to win your trust more than any bank in the world. And we will do our very best to provide the exact integrated solution for your unique demands, with more speed and efficiency than any bank in the world.

We're really excited about the changes the new Chase is committed to achieve. Not just for us but for our clients. After all, that's what banking has always been about.

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*Second Row: James G. Murray, Karen Peetz, Richard Smith, Paul J. Maloy, Thomas D. Hoppe, John Knight, Rainer Gebbe, Jose Garay, Federico Imbert, David Adamson, Jean-Olivier Bartholin, JoAnne Taylor*  
*Third Row: Mark Babunovic, Alan Badanes, Cheryl Boucher, Satu Jaatinen, Betsy Nelson, Elaine Devenish, Judy Welch, David Brown, John Dean, Mahmoud Difrawy, Michael L. Ellison*  
*Fourth Row: Nadeem Fayyas, Mary Beth Fender-Miesch, Jackie Gillan, Robert Hinaman, Rachael Hoey, Julie Jakobek, Jeremy Jewitt, Nadine Lagarmitte, Brian C. Lazell, Ray Morison, Andrew D. Panzures, Brian Scammell*  
*Fifth Row: Robin Saunders, Colette Selflagh, William A. Semmes, Yawar Shah, Karen Simon, Stephen W. Solomon, Guy Spaul, Rob Standing, Sergei Boboshko, Anne E. Whitaker, John Wigzell*

## COMPANIES AND FINANCE: THE AMERICAS / EUROPE

## Brazil-Bolivia gas pipeline plan moves forward

By Jonathan Wheatley in São Paulo

Long-delayed plans to build a pipeline to carry natural gas from Bolivia to Brazil have moved forward following an agreement between Petrobras, Brazil's government-controlled oil company, and Comgas, the São Paulo state gas distributor.

The agreement follows talks between presidents Fernando Henrique Cardoso of Brazil and Gonzalo Sánchez de Lozada of Bolivia at which the two leaders agreed to give the project their full political support.

The move ends a dispute over charges that Comgas and other state distributors in south-eastern Brazil will pay to Petrobras, and should help Petrobras to raise finance for construction of the pipeline, budgeted at US\$2bn.

A formal contract is expected to be signed within the next month. Under the deal, Comgas will pay for 56 per cent of the supply of gas guaranteed by Petrobras, whether it uses it or not, rising to 95 per cent after 10 years. Petrobras originally demanded payment for 100 per cent of capacity.

But Petrobras has held firm on price: Comgas will pay \$2.80 per million BTUs (British thermal units) for gas from Bolivia, compared with about \$2.37 per million BTUs for Brazilian natural gas.

"This should make it easier for distributors in other states to reach similar agreements," said Ms Léda Corrêa Gomes, president of Comgas. The company expects to buy half the gas supplied by the pipeline, scheduled to enter operation at the end of 1998, delivering 8m cubic metres a day, rising to 18m cubic metres a day.

Mr Antônio Luiz Meneses, a director at Petrobras responsible for the pipeline, said the deal would help efforts to raise finance for the project.

"This makes the pipeline all the more viable and will certainly help in our talks with the banks," he said.

However, analysts said doubts remain about pricing levels. "The price of natural gas is tied to fuel prices that are 20 per cent above international averages," said Ms Ana Coqueiro of Brazilian investment bank Icatu. "It is hard to see how you can raise finance for a project based

on unreal prices in an opening market."

According to an agreement signed by Brazil and Bolivia in 1993, a financial package for the pipeline should have been agreed by August 1994. Mr Francisco Moura of Brazil's foreign ministry said the two presidents discussed the pipeline at a meeting in late June and agreed that the framework for a financial package would be established by August 17.

"Nothing was put on paper, but they agreed to add a political impetus at the highest level," he said.

## Alestra still waiting to make connection

An alliance to compete with Telmex is stuck in the formative stage, says Daniel Dombey

The formation earlier this year of a new company to take advantage of the liberalisation of Mexican telecommunications must have worried executives at Telefonos de México (Telmex).

The newcomers - which include AT&T, GTE and Telefonos Internacionales de España - promised that their fledgling company, Alestra, would give the established carrier formidable competition when it lost its long-distance monopoly this year.

Moreover, they said, all of the services provided by Alestra would be marketed under the AT&T name, which compares well with Telmex's mixed reputation.

Two months on, despite a massive advertising offensive by Alestra, the picture is a little different.

The new alliance's legal status has yet to evolve beyond a letter of understanding and the company has been relatively slow in building infrastructure. However, Alestra's bosses are confident that consumers will wait for its services to be ready.

"We represent the highest quality brand in world telecommunications," says Mr Jorge Escalona, Alestra's chief executive. "We are not going to put our quality at risk to be ready [earlier]."

Some of the problems of preparing for competition are due to the company's intricate structure. In its original form, Alestra matched up AT&T and

Grupo Alfa, a Mexican conglomerate.

In April, it was announced that the group would be joined by GTE, the US local telephone services provider, and Bancomer-Visa, which controls Mexico's second largest bank. Together, GTE and Bancomer had formed Unicom, another prospective long-distance competitor.

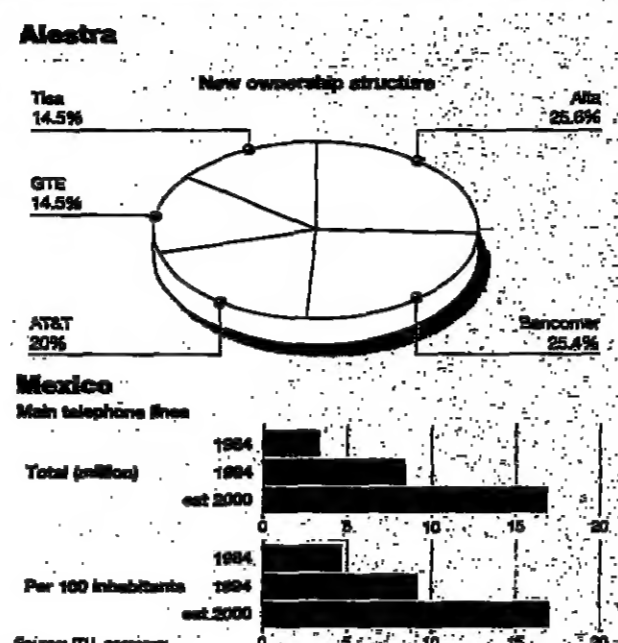
Telefonos Internacionales, which had announced its intention to join Unicom some months before, also formed a further part of the new alliance.

"Many different sectors of telecommunications were coming up for liberalisation," says Mr Rodrigo Guerra, head of AT&T-Mexico. "In order to be present in all those different sectors, we decided to combine the efforts of the two groups," he adds.

The country's devaluation-inspired recession was also a reason to rationalise operations.

To date, however, the alliance has meant little more than the transfer of some 50 of Unicom's employees to Alestra. The two companies are still formally separate, with negotiations having been complicated by the increasing number of partners.

Mr Peter Hutchinson, the head of telecommunications at Alfa, has promised that a final agreement will be in place before competition formally begins in mid-August. In the meantime, investments are



being shouldered by Alfa and AT&T alone.

"I would not be surprised if things did not work out. These are pretty strange bedfellows," says Mr Patrick Jurcsek, head of Latin American research at Nomura Securities in New York. "But an AT&T and Telefonos Internacional alignment would be very powerful if it went ahead."

When the alliance was announced, the companies committed themselves to investing \$1bn in the

long-distance sector and film in other areas, such as cellular and local services for corporate clients. An element of doubt will remain over the investment plans until the merger is made concrete.

Alestra has built only a quarter of the 4,600km fibre optic network it wants in place for the opening of the long-distance market. Its competitor Avantel, a joint venture between MCI and Banamex Mexico's largest bank, has all but finished its own, similar

network, and from mid-August will be able to install dedicated lines. Alestra's capacity to do so will be much less.

However, the gradual nature of telecom liberalisation mitigates Avantel's head-start. For all but wealthy corporate clients, the installation of separate networks by an independent network are too expensive.

Also, although Telmex loses its long-distance monopoly on August 11, it will not be until next January 1 that its new competitors will be able to pass long-distance calls through its local network.

According to Mr Escalona, customers will be willing to wait for Alestra, even if that means switching from another of the new carriers. Many people, he thinks, will be swayed by name recognition of AT&T.

The company's services - such as virtual private networks, Internet access and calling cards - are also likely to be promoted through Alestra's network of associated groups, which not only include Bancomer, but also feature leading breweries and soft drink franchises.

Such exposure could compensate for slowness in building infrastructure this year. The company certainly hopes so. "I think it is great if our competitors really believe that we will not be ready for competition on January 1 1997," Mr Escalona says. "Terrific."

## Tandy warns of heavy fall in profits

By Richard Tomkins in New York

Shares in Tandy, the US consumer electronics retailer, fell 87¢ to \$41.15 in early trading yesterday after the company warned profits would be heavily down in the second quarter to June, even excluding a restructuring charge.

It blamed the fall on weak revenues, saying sales at stores that had been open a year or more were 2 per cent lower in June than they were a year earlier.

Tandy has about 6,800 Radio Shack stores selling electronic goods, 108 Computer City stores selling personal computers and 16 Incredible Universe superstores selling computer, audio and video products.

In last year's second quarter it made net profits of \$38m, or 55 cents a share. Analysts had been looking for 50 cents a share in the latest quarter.

However, in May, Tandy warned it would take a restructuring charge of \$25.5m before tax, or 36 cents a share, in the second quarter to cover the cost of streamlining the Incredible Universe division, including the closure of two stores.

Yesterday the company said that second quarter earnings would be 30 per cent below those for the comparable period, excluding the restructuring charge, because sales had fallen below budget.

## NEWS DIGEST

## Cost-cutting set to benefit Bell Canada

BCE, Canada's biggest telecommunications group, says its Bell Canada telephone utility should earn C\$950m (US\$694m) in 1997 on revenues of C\$9.5bn, benefiting from a tough cost-cutting programme to reduce its overall payroll by 10,000 by the end of 1998. BCE, in a regulatory filing, said most of the financial turnaround will come from restructuring rather than local service rate increases granted for 1996-97.

Bell Canada earned C\$500m for a rate of return of 6.7 per cent in 1995. The projected rate of return for 1997 is 12.5 per cent, or around historical levels. Bell has been subject to heavy long distance competition and price-cutting and the upsurge in earnings will have an impact on BCE directly, as Bell Canada is a 100 per cent-owned subsidiary.

Robert Gibbons, Montreal

## Canadian M&amp;A deals still high

Canadian mergers and acquisitions totalled 271 deals worth C\$12.2bn in the second quarter, against 230 deals worth C\$850m a year earlier, according to Crossley, the Toronto merchant bankers. The 1996 period included Seagram's divestment of almost 25 per cent of Du Pont and the acquisition of MCA. First-half deals totalled \$20.3bn, worth almost \$350m, against 430 worth C\$43.3bn a year earlier. The continuing high level of deals is attributed to globalisation, fast-changing technology and lower interest rates.

Robert Gibbons

## BBV seeks Peru telecoms stake

Banco Bilbao Vizcaya, the Spanish bank, plans to invest P100bn (\$78m) to acquire "at least" a 1.5 per cent stake in Telefonos de España's unit Telefonos del Peru, according to reports citing BBV managing director, Mr Javier Echanique. The acquisition comes within the framework of BBV's new strategy aimed at diversifying its foreign activity in those countries where it already has a banking network. BBV operates in the Peruvian market through its unit Banco Continental.

AFP, Madrid

## Schering Plough cancer move

Schering-Plough of the US has received patent protection from both US and European patent offices for the use of its p53 gene therapy in the treatment of cancer. Schering-Plough is developing new cancer treatments based on its unit Canji's proprietary scientific discoveries with p53 gene therapy technology. Schering-Plough said it expects to begin clinical trials of p53 gene therapy this year.

Reuters, New Jersey

## Rio Algom in Antamina bid

Rio Algom and Inmet Mining, the Canadian mining groups, said they had submitted a joint bid to OCPRI-Centromin Peru in a public auction for the Antamina property in Peru. They said the winning bid would be announced after all the bids were opened and made public on July 12. Rio Algom and Inmet participated equally in the sealed bid, they said. The Antamina property, located 482 km north of Lima, hosts a partially-defined copper/zinc deposit with proven and probable reserves of 128.6m tonnes grading 1.61 per cent copper, 1.38 per cent zinc, 17.7 g/t silver and 0.04 per cent molybdenum with upside potential. Further drilling is needed to define the potential of the ore body, which is open in several directions, Rio Algom said.

Reuters, Toronto

CHIRON CORPORATION  
Notice to Holders of Bearer Securities  
5 1/2 Per Cent Convertible Subordinated Debentures Due 2002 of Chiron Corporation

Holders of 5 1/2 Per Cent Convertible Subordinated Debentures (the "Debentures") Due 2002 of Chiron Corporation, a Delaware corporation (the "Company"), ("Bearer Securities" as defined in the Indenture dated as of May 21, 1987 between Cetus Corporation and Bankers Trust Company, Trustee of the "Trustee"), as amended by the First Supplemental Indenture dated as of December 12, 1991 among the Company, Cetus Corporation and the Trustee (the "Indenture") are hereby notified pursuant to Section 105 and Section 806 of the Indenture that the Indenture has been amended by the Second Supplemental Indenture dated as of March 25, 1996 among the Company, Cetus Oncology Corporation (formerly Cetus Corporation) and the Trustee (the "Second Supplemental Indenture").

The Second Supplemental Indenture revises the language of the Indenture to remove references to Cetus Corporation which merged with and into the Company and the Company succeeded to all of the rights and obligations of Cetus Corporation under the Indenture.

In addition, holders of Bearer Securities are hereby notified pursuant to Section 1204(a)(1) of the Second Supplemental Indenture that the Board of Directors of the Company declared a 4-for-1 stock split effected in the form of a dividend as the Company's Common Stock to be distributed on August 2, 1996 to stockholders of record on July 19, 1996 (the "Record Date"). Stockholders will receive three additional shares of Chiron Common Stock for each share of Common Stock owned on the Record Date.

In accordance with Section 1204(a)(1) of the Second Supplemental Indenture, a dividend payable in Common Stock adjusts the Conversion Price (as defined in the Indenture) of the Debentures offered at the opening of business on the day following the Record Date. The Conversion Price in effect immediately prior to the declaration of the dividend was \$123.33 per share of Common Stock. As of the opening of business on July 22, 1996, the adjusted Conversion Price for the Debentures will be \$30.83.

**ACTION IS NECESSARY ON THE PART OF THE HOLDERS OF BEARER SECURITIES.** Please contact any of the Paying Agents listed below if you have any questions.

## PAYING AGENTS

Morgan Guaranty Trust Company of New York  
60 Victoria Embankment  
London EC4Y 0JP  
Banque Internationale à Luxembourg S.A.  
69 route d'Esch  
L-1470 Luxembourg

Swiss Bank Corporation  
Paradeplatz 6  
CH-8010 Zurich

CHIRON CORPORATION  
By: Morgan Guaranty Trust Company of New York  
as Principal Paying Agent

Dated: July 9, 1996

Lot No.	Quantity	Price	Amount
0000	10,000	10.00	100,000
0001	10,000	10.01	100,100
0002	10,000	10.02	100,200
0003	10,000	10.03	100,300
0004	10,000	10.04	100,400
0005	10,000	10.05	100,500
0006	10,000	10.06	100,600
0007	10,000	10.07	100,700
0008	10,000	10.08	100,800
0009	10,000	10.09	100,900
0010	10,000	10.10	101,000
0011	10,000	10.11	101,100
0012	10,000	10.12	101,200
0013	10,000	10.13	101,300
0014	10,000	10.14	101,400
0015	10,000	10.15	101,500
0016	10,000	10.16	101,600
0017	10,000	10.17	101,700
0018	10,000	10.18	101,800
0019	10,000	10.19	101,900
0020	10,000	10.20	102,000

Lot No.	Quantity	Price	Amount
0021	10,000	10.21	102,100
0022	10,000	10.22	102,200
0023	10,000	10.23	102,300
0024	10,000	10.24	102,400
0025	10,000	10.25	102,500
0026	10,000	10.26	102,600
0027	10,000	10.27	102,700
0028	10,000	10.28	102,800
0029	10,000	10.29	102,900
0030	10,000	10.30	103,000
0031	10,000	10.31	103,100
0032	10,000	10.32	103,200
0033	10,000	10.33	103,300
0034	10,000	10.34	103,400
0035	10,000	10.35	103,500
0036	10,000	10.36	103,600
0037	10,000	10.37	103,700
0038	10,000	10.38	103,800
0039	10,000	10.39	103,900
0040	10,000	10.40	104,000

Lot No.	Quantity	Price	Amount
0041	10,000	10.41	104,100
0042	10,000	10.42	104,200
0043	10,000	10.43	104,300
0044	10,000	10.44	104,400
0045	10,000	10.45	104,500
0046	10,000	10.46	104,600
0047	10,000	10.47	104,700
0048	10,000	10.48	104,800
0049	10,000	10.49	104,900
0050	10,000	10.50	105,000
0051	10,000	10.51	105,100
0052	10,000	10.52	105,200
0053	10,000	10.53	105,300
0054	10,000	10.54	105,400
0055	10,000	10.55	105,500
0056	10,000	10.56	105,600
0057	10,000	10.57	105,700
0058	10,000	10.58	105,800
0059	10,000	10.59	105,900
0060	10,000	10.60	106,000

Lot No.	Quantity	Price	Amount
0061	10,000	10.61	106,100
0062	10,000	10.62	106,200
0063	10,000	10.63	106,300
0064	10,000	10.64	106,400
0065	10,000	10.65	106,500
0066	10,000	10.66	106,600
0067	10,000	10.67	106,700
0068	10,000	10.68	106,800
0069	10,000	10.69	106,900
0070	10,000	10.70	107,000
0071	10,000	10.71	107,100
0072	10,000	10.72	107,200
0073	10,000	10.73	107,300
0074	10,000	10.74	107,400
0075	10,000	10.75	107,500
0076	10,000	10.76	107,600
0077	10,000	10.77	107,700
0078	10,000	10.78	107,800
0079	10,000	10.79	107,900
0080	10,000	10.80	108,000

CHIRON CORPORATION

BPB Industries plc  
(the "Company")  
£54,000,000 7.25 per cent Convertible  
Subordinated Bonds 2008  
(the "Bonds")

PROPOSED ENTRY OF THE BONDS INTO THE LONDON SECURITIES  
MARKET'S NEW PAPERLESS SETTLEMENT SYSTEM ("CREST")

The Board of Directors of the Company has, on 26 June 1996, resolved, subject to the Law Debenture Trust Corporation plc (as Trustee of the Bonds, the "Trustee") approving necessary changes to the Trust Deed dated 17 March 1993 between the Company and the Trustee whereby the Bonds were created (the "Trust Deed"), and subject to CREST Ltd (as Operator of the CREST system) permitting the Bonds to become a participating security in accordance with and as defined in the Uncertificated Securities Regulations 1995 (the "Regulations"), to permit the holding of the Bonds in uncertificated form and the transfer of the Bonds by means of a relevant system (as defined in the Regulations), including the CREST system.

Notice is hereby given in accordance with the provisions of the Trust Deed that it is proposed that the Company and the Trustee (in exercise of the Trustee's powers under the Trust Deed) shall enter into a supplemental deed for the purpose of effecting amendments to the Trust Deed to allow: (a) the holding of the Bonds in uncertificated form; (b) the transfer of the Bonds by means of a relevant system; and (c) the rights attaching to the Bonds to be exercised by means of a relevant system.

The amendments to be contained in the supplemental deed will become effective immediately before the date on which the Bonds become a participating security in CREST (provisionally allocated by CREST Ltd as 25 September 1996).

CREST is a voluntary system and holders of Bonds who wish to retain their Bonds in certificated form can do so and effect transfers of certificated Bonds in accordance with the existing provisions of the Trust Deed.

9 July 1996

FAR EASTERN TEXTILE LTD.  
US\$50,000,000 4 1/2 per cent Bonds due 2006

Pursuant to Section 4.2 of the Indenture dated as of October 7, 1991 (the "Indenture"), among Far Eastern Textile Ltd. (the "Company"), Principal Paying Agent and Citicorp Trust Company Limited as Trustee, relating to the issuance by the Company of US\$50,000,000 aggregate principal amount of 4 1/2 per cent Bonds due 2006 (the "Bonds"), we hereby notify you that the newly adjusted Conversion Price of NT\$29 per share will take effect on June 30, 1996, the ex-dividend date. This adjustment is based on the declaration of 185,679,588 shares in the form of the stock dividends of 1995. These stock dividends are funded by the appropriation of the unappropriated earnings in 1995 in the amount of NT\$18,537,852 and the company's capital surplus in the amount of NT\$1,037,864,908. The total amount is NT\$1,556,795,960.

July 2, 1996  
By: Citicorp N.A., Paying and Conversion Agent

CITIBANK

## THE TOP OPPORTUNITIES SECTION

For senior management positions.  
For information please contact:

Robert Hunt  
+44 0171 873 4095

## Hungarian share issue well received

By Nicholas Denton

Heavy demand for a share issue by TVK, the Hungarian chemical producer, has revealed the growing appeal of central European equities to mainstream as well as specialist western investment funds.

The TVK offer to foreign and Hungarian institutions, which was lead-managed by CS First Boston and closed on Friday, was more than six times over-subscribed and elicited gross demand for \$650m worth of shares.

APV RT, the Hungarian privatisation authority, has increased the size of the institutional tranche from 10.5m shares to a maximum of 17m, equal to 71 per cent of the formerly state-owned company.

At the price of \$9.81 a share set at the weekend, the transaction is valued at \$150m, making TVK the largest equity offering to emerge from eastern Europe after that of Mol, the Hungarian oil producer.

A further 10 per cent of TVK is allocated to employees, and 3.5 per cent will be offered to the Hungarian public from July 16. This could add a further \$30m to the offer size, giving a total of \$180m.

Most privatisations in eastern Europe have occurred through the almost free distribution of shares to the public, management buy-outs or trade sales to western industrial companies in the same sector.

But the return, after the Mac financial crisis, of western investors to emerging markets

has lifted Hungarian, Polish and Czech stockmarkets in 1996, and

## COMPANIES AND FINANCE: ASIA-PACIFIC/INTL

## National Mutual Life at A\$348m

By Nikki Tait in Sydney

National Mutual Life, Australia's second-largest life office, yesterday announced an after-tax profit of A\$348m (US\$275m) for the six months to end-March.

The company, which is controlled by France's Axa group, confirmed that it would make a decision this month on the timetable for listing its parent company, National Mutual Holdings, on the stock market. The first possible date would be September this year, with the next likely opportunity in early 1997.

The listing will be the final stage in National Mutual's demutualisation process.

Policyholders have endorsed the hand-over in ownership from themselves to shareholders, and the associated injection of funds from Axa last year. The listing is likely to value the holding company at more than A\$2bn. The insurer has said that it will occur by September 1997 at the latest.

Last September NML sold a number of its subsidiaries to NML for A\$1.36bn, and received a further A\$200m cash injection. Under the reorganised group structure, it has become the largest of NML's subsidiaries.

The restructuring makes comparisons between these latest results and their predecessors difficult. But the group

said that premium income in the first half of A\$1.12bn compared with A\$2.62bn in the year to end-September. It conceded that premiums appeared to be heading lower, but said there was a seasonal weighting towards the second half. Policy payments, meanwhile, were A\$1.37bn, against A\$2.96bn for the last full year, but these are also seasonal.

Investment income rose strongly to A\$718m, compared with A\$1.15bn in the last full year, helped by the cash injection. Nevertheless, NML warned that "markets had not progressed to the same degree since the end of March" and added that it "could not look at anything like the first half

result" in the current six months.

Management expenses, meanwhile, fell to A\$233m, against A\$542m in the 1994/95 full year. But Mr Tony Killen, NML's managing director, said that he still saw scope for more savings.

The latest result also benefited from a one-off adjustment: A\$28m was added as a result of a restatement of liabilities, compared with an A\$38m charge in the year to September 1995. However, with these items included, NML said that, in effect, A\$226m of the A\$348m net profit represented benefits for policyholders, and A\$122m the return to its parent company.

## Hot tickets help agency to improve its performance

South Africa is possibly the only place in the world where you can buy a ticket for any cinema, theatre or sporting event anywhere in the country from a kiosk in a local shopping mall.

This is due in part to the country's past isolation - which barred competing film distribution networks from controlling the biggest cinema chains - and in part to Computicket, the reservation agency which since its inception in 1971 has tied up ticketing deals with almost every cinema, theatre and sports stadium.

Computicket is now re-engineering its business to exploit the full value of its online, real-time electronic data network. According to Mr Graeme Victor, a management consultant who succeeded theatre aficionado Mr Percy Tucker, the company's founder, as managing director in 1994, Computicket's days as a ticket agency focusing exclusively on entertainment are over. Its data network is the envy of retail banks, travel agents, betting shops and many other retailers, he says.

"Today we are open to anyone who wants us to handle money for them. We will not sign exclusive contracts."

The political transition has brought an influx of foreign artists, from Pavarotti to the Rolling Stones, to perform in South Africa. The resulting surge in Computicket's income is being used to finance an array of new projects. The group, a wholly-owned subsidiary of the Interleisure group formerly controlled by hotel magnate Mr Sol Kestner, saw revenue rise 28 per cent and operating profit before abnormal items more than double in

1995, when South Africa hosted the Rugby World Cup.

At R2m (US\$480,000) last year, the pre-tax profit remains small. Computicket's average margin on ticket sales, worth R250m in 1995, is between 5 and 10 per cent, generating a turnover of R20m. But the potential is huge. Two years ago, the company posted losses of R300,000; today it is ploughing most of the gains from a 25

## Mark Ashurst reports on a South African ticket business's plans to revamp its systems and distribution network

per cent increase in turnover into new software to make its network compatible with others worldwide.

It recently launched the world's first network of self-service cinema ticket dispensers in a joint venture with First National Bank. The new machines, based on a standard PC-based Siemens Nixdorf cash dispenser, enable cinema-goers to buy tickets for 490 cinemas in a single transaction using bank or credit cards. In future they will be able to preview films on touch-sensitive screens.

If the five pilot machines installed in Johannesburg shopping malls and health clubs prove popular, the service will be extended to other entertainment, notably the lucrative sports market. "The same technology is used extensively in the UK and Europe, but it has never before been

possible to link into a national reservation network," says Mr Dirk Coetzee, head of development at Siemens Nixdorf. About 400 units will be distributed nationally within five years - almost a fourfold increase in Computicket's 110 points of sale.

Computicket's ambitions highlight the rapid growth of information technology in the highly polarised South African economy. Retailers hope electronic payment systems will help integrate the relatively sophisticated, mainly white formal sector with the predominantly black informal economy, where development is frustrated by a high crime rate and largely underdeveloped infrastructure. "Our long-term goal is to bring a majority of the population into the formal banking sector," says Mr Mike Jarvis, general manager of information technology at First National Bank.

At least 70 per cent of South Africans do not have bank or credit cards, so Computicket's dream of handling only electronic payments remains remote. Meanwhile, it offers many businesses a convenient alternative to receiving over-the-counter payments on their own premises. "We offer an online receipting system so we can reconcile the payments received and hand over the money the next day if necessary. We take all the risks of credit card fraud and crime - we are often held up at outlets," Mr Victor says.

His sights are now set on the travel industry, where reserving game lodges, self-catering units, holiday flats and caravan parks can be fraught with bureaucratic hurdles for the ordinary leisure traveller.

## Jordanian and El Al lock horns

By Yaroslav Trofimov in Tel Aviv

The recent opening of air links between Israel and Jordan - a direct result of the 1994 peace treaty - has sparked a price war between the two nations' state-owned flag carriers, which must now compete for the lucrative long-haul market.

Royal Jordanian, which began flying to Tel Aviv in April is exploiting its advantage on routes to east Asia. Jordanian aircraft - unlike those of Israel's El Al - are permitted to fly over Saudi Arabia, rather than around it, cutting flight times to India and the Pacific Rim by as much as half.

Ms Dvora Bruchstein, manager of Jordanian's general sales agency in Israel, claimed that up to 40 per cent of the passengers aboard her company's Tel Aviv-Amman flights were using the Jordanian capital as a transit point on their way to Asia.

But El Al, which inaugurated its own Tel Aviv-Amman service last month, denies that its 50,000-passenger-a-year east Asia operation has suffered as a result of competition from Jordan.

The Israeli carrier is trying to exploit its own advantage on popular routes to the US, by marketing in Jordan cheap connecting flights to New York or Los Angeles via Tel Aviv.

Analysts warn that this effort may be doomed, as Jordanians are unlikely to want to go through Israel's exhausting airport security and visa restrictions in order to pay a slightly cheaper fare.

All of these securities having been sold, this announcement appears as a matter of record only.

July 1996

21,191,301 Shares

## Price Costco, Inc.

Common Stock

3,900,000 Shares

The above shares were offered outside the United States and Canada by the undersigned.

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Securities Corporation

UBS Securities

Salomon Brothers International Limited

17,291,301 Shares

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Ragen MacKenzie  
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Lazard Frères &amp; Co. LLC

J.P. Morgan &amp; Co.

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Pacific Crest Securities Inc.

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All of these securities having been sold, this announcement appears as a matter of record only.

July 1996

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Paribas Capital Markets

Credit Lyonnais Securities

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Deutsche Morgan Grenfell

Gerard Klauer Mattison &amp; Co., LLC

Lehman Brothers

Raymond James &amp; Associates, Inc.

Advest, Inc.

Black &amp; Company, Inc.

Janney Montgomery Scott Inc.

Needham &amp; Company, Inc.

Pennsylvania Merchant Group Ltd

Sutro &amp; Co. Incorporated

Van Kasper &amp; Company

Alex. Brown & Sons  
Incorporated

Goldman, Sachs &amp; Co.

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The Ohio Company

The Ohio Company

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McDonald & Company  
Securities, Inc.Parker/Hunter  
Incorporated

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Incorporated

Wheat First Butcher Singer

All of these securities having been sold, this announcement appears as a matter of record only.

July 1996



## Pasifik Satelit Nusantara

3,650,000 American Depositary Shares Representing  
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730,000 Shares

The above shares were offered outside the United States and Canada by the undersigned.

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The above shares were offered in the United States and Canada by the undersigned.

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Bear, Stearns &amp; Co. Inc.

Deutsche Morgan Grenfell

Lehman Brothers

Robert W. Baird & Co.  
Incorporated

The Chicago Corporation

Legg Mason Wood Walker  
Incorporated

Pennsylvania Merchant Group Ltd

Tucker Anthony  
Incorporated

Cowen &amp; Company

Goldman, Sachs &amp; Co.

Merrill Lynch &amp; Co.

Black &amp; Company, Inc.

Crowell, Weedon &amp; Co.

McDonald & Company  
Securities, Inc.

Roney &amp; Co.

Unterberg Harris

CS First Boston

Lazard Frères &amp; Co. LLC

Smith Barney Inc.

J. C. Bradford &amp; Co.

First of Michigan Corporation

The Ohio Company

Parker/Hunter  
Incorporated

Sutro &amp; Co. Incorporated

Wheat First Butcher Singer



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- existing base business in third party hydrocolloid adhesive manufacture
- leasehold premises of 5000 sq ft including a new Class J (Class 10000) fully equipped manufacturing clean room of 2000 sq ft

For further information, please contact Nigel Voight or James Brodway of Coopers & Lybrand, Plumtree Court, London EC4A 4HT. Tel: 0171 538 5000. Fax: 0171 212 6004

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Contact Jeremy Hill

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The Joint Administrative Receivers, Edward Klamper and David Stokes, offer for sale the business and assets of Best for Carpets Limited (formerly Paul Eyns Carpets Limited).

## Principal features of the business include:

- Turnover £540m
- 30 retail stores
- highly motivated and experienced sales team
- locations between Birmingham and Newcastle

For further information please contact  
Stuart Maclellan, without delay, of Coopers & Lybrand,  
Aldon Court, 8 Aldon Place, Leeds LS1 5JP.  
Telephone: 0113 243 1343. Fax: 0113 243 4567.

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**Tyrberville Smith & Son Limited**

- Established since 1825
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For further information  
please contact:

Peter Copp or  
Geoffrey Kintan  
BDO Stay Hayward  
800 Haywood,  
Baker Street,  
London W1M 7BA.

Tel: 0171 488 5888  
Fax: 0171 488 3444

Ref: 1996

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- Located in 12,500 sq ft freehold premises (including offices)
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For further details contact the Joint  
Administrative Receivers: Les Ross  
or David Rowlands, Grant Thornton,  
1st Floor, Royal Liver Building,  
Liverpool, L3 1PS.  
Tel: 0151 224 7200 Fax: 0151 227 1153

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(All in Administration)

The Joint Administrators offer for sale either in part or as a whole  
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For further details please contact R. Robinson or G. Lee of  
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Interested parties please contact Martin Lloyd or Shaun Adams at  
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Tel: 0115 960 8171 Fax: 0115 960 3685

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- 1.3 acre freehold site.
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- 18 employees.

For further details contact David Harris at KPMG, Barham Court,  
Tenterden, Maidstone, Kent ME10 5BZ. Tel: 01622 814814.

KPMG Corporate Recovery.

## ASTIKA AKINITA

INCORPORATED COMPANY OF REAL ESTATE CONSTRUCTIONS TOURIST AND RELATED ENTERPRISES

REPEAT PUBLIC CALL FOR TENDERS FOR THE SALE OF THE ASSETS OF THE  
"MARTIN BEACH" HOTEL UNIT

"ASTIKA AKINITA S.A." (43 Panepistimiou str., 105 64 Athens), under its  
capacity as special liquidator, by virtue of Judgments nos. 583/1994 and  
229/1996 of the Larissa Court of Appeal, of the assets of the hotel unit under  
the title "MARTIN BEACH" (henceforth referred to as the "Enterprise") which is  
owned by the incorporated company "MARTIN BEACH HOTEL S.A."

## ANNOUNCEMENT

A repeat public call for tenders with sealed, binding offers, for the sale of  
the assets of the "Enterprise" which has come under special liquidation  
by virtue of article 46a, L. 1892/1990.

ACTIVITIES AND BRIEF DESCRIPTION  
OF THE COMPANY

The above unit is owned by the incorporated company "MARTIN BEACH  
HOTEL S.A." which was established by act no. 10,077/16.1.1986 of the Athens  
notary public K. Giannoulas. The head offices of the company according to its  
articles of association is the Municipality of Skithos, Prefecture of Magnesia.  
The company operated the hotel unit until the issue of the above Judgments  
by the Larissa Court of Appeal, whereupon it came under special liquidation as  
provided by article 46a, L. 1892/1990 and the company ASTIKA AKINITA S.A.  
was appointed special liquidator.

The hotel unit under sale belongs to Hotel Class B and has a capacity of 41  
rooms - 80 beds. It is located at Tzarnia, Isle of Skithos, at a distance of  
approx. 4.5 km. from the town, on a site with total area of 4,966.46 sq.m. The  
hotel complex consists of two (2) main buildings-wings covering a total  
constructed area of 2,230 sq.m. plus terraces and semi-covered areas, erected  
on fifteen different levels in line with the considerable natural inclination of the  
ground.

## INVITES

all interested parties to receive an offer memorandum, and submit a sealed,  
binding offer accompanied by a letter of guarantee by a Bank operating lawfully  
in Greece, for the sum of forty million Drachmas (Drs. 40,000,000) with the  
contents described in the offer memorandum.

## CONDITIONS

- The public call for tenders will be carried out in accordance with the  
provisions of article 46a, L. 1892/1990 which was added to the law by virtue of  
the provision of article 14, L. 2000/91, as amended, modified and applicable,  
the terms included in the present call for tenders and the terms of the offer  
memorandum, which interested parties may obtain after submitting a pledge of  
confidentiality in writing.
- In order to participate in the call for tenders, interested parties are  
invited to deliver a sealed, binding offer in writing by 11:00 Tuesday, July  
30, 1996 to the Skithos notary public Christos K. Giannoulas, 28  
Papadimitriou street, 370 02 Skithos, tel: (0427) 2.2222, fax: (0427)  
2.1988.
- The offer and the letter of guarantee must be delivered in a sealed, opaque  
envelope by the interested party in person or by a duly authorized  
representative.
- The offer must mention clearly the amount offered for the purchase of the  
hotel unit of the "Enterprise" and must not contain any terms, options or vague  
phrases which might create uncertainty as to the amount, the manner of  
payment of the sum being offered or other matters related to the sale.
- Offers delivered after the expiration date will not be accepted and will not be  
considered. The binding nature of the offers will apply until the award of the  
sale.
- The assets of the "Enterprise" and all the secondary fixed or current  
assets of which they consist, such as real estate, movable objects, claims,  
debts, etc. will be sold and transferred "as and where they are", i.e. name,  
value, rights, etc. will be sold and transferred "as and where they are" in their  
real and legal condition and at the place where they are located on the  
date of signing the contract of sale.

7. The liquidating company and the creditors representing 51% of total claims  
against the "Enterprise" (para. 1, article 46a, L. 1892/1990 as applicable) are  
not liable for any legal or real defects or the lack of any attributes of the objects  
and rights being sold, nor are they liable for any omissions or inaccuracies  
contained in their description in the offer memorandum or any correspondence.

8. Interested potential purchasers are obligated under their own supervision and  
by their own means, expenses and personnel, to investigate and acquire a  
personal perception of the objects being sold, and to mention in their offer that they  
are fully informed as to the real and legal status of the assets under sale.

9. The liquidator and the creditors mentioned in para. 7 above are entitled,  
according to their own judgement, to reject offers containing terms and options,  
or the phrases referred to in para. 4 above, regardless of whether they are  
superior to other offers as regards the amount being offered.

In every case, the creditors are entitled, according to their own judgement, to  
dismiss offers containing terms and options, regardless of whether such offers  
are superior to others, or consider such terms as not included, in which case  
the offer remains binding as to its other contents (article 2, para. 3, L.  
2302/1995).

10. In the event that the highest bidder violates his obligation to come forward  
and sign the relevant contract within ten (10) days from the invitation by the  
liquidator and observe the obligations arising from the present announcement,  
the letter of guarantee is forfeited in favour of the liquidating company towards  
covering all its expenses of any type and its services, as also any direct or  
indirect damages, without the necessity of proving specific damage, and as a  
penal clause in favour of that company, deemed as having been submitted with  
the offer, so that the guarantee may be collected from the issuing Bank.

The letters of guarantee are returned to all the other participants following the  
evaluation report of the liquidator, and to the successful bidder, to whom the  
sale will be awarded following the payment of the amount agreed and the  
drafting of the payment order.

11. The seals of the offers will be broken by the notary public mentioned  
above, at his office, at 12:30 on Tuesday, July 30, 1996.

12. The successful bidder will be the party whose offer will be judged by the  
liquidator and approved by the creditors mentioned in para. 7 of the present, as  
being the most advantageous for the creditors of the "Enterprise".

13. The liquidator will notify the successful bidder in writing of his obligation to  
come forward to the place and at the time determined in the notification, for  
signing the contract transferring the assets, according to the terms of the offer  
and any improved terms that may be indicated by the creditors and agreed with  
the highest bidder.

14. All expenses and costs arising from participation in the tender and the  
transfer of assets (such as taxes, stamp duty, notarial fees, V.A.T., publications,  
etc.) will burden the interested potential purchasers and the highest bidder as  
referred to in the above offer memorandum.

15. In the event of part of the purchase amount being on credit, the highest  
bidder will be under the obligation to provide any guarantee requested by the  
liquidator according to its own, exclusive judgement, and will be burdened with  
all related expenses and fees for the formation of such guarantees and their  
cancellation.

16. The liquidator and the creditors will not bear any responsibility or liability  
against those who participate in the tender as regards the evaluation of the  
offers, their recommendation of the successful bidder, the decision for the  
rejection or cancellation of the tender and any other decision relevant to the  
procedure and realisation of the sale.

17. The present announcement has been drafted in the Greek language and  
translated into the English language. In every instance however, the Greek text  
will prevail.

Interested parties may collect offer memorandums and receive other  
information from Mr. George E. Polimenides and Mr. Alexandros Meggos, 43  
Panepistimiou str., 105 64 Athens, tel: 326.6113 and 326.6080, fax no:  
326.6118.

## ASTIKA AKINITA

INCORPORATED COMPANY OF REAL ESTATE CONSTRUCTIONS TOURIST AND RELATED ENTERPRISES

REPEAT PUBLIC CALL FOR TENDERS FOR THE SALE OF THE  
ASSETS OF THE "SKIATHOS PRINCESS ELISABETH" HOTEL UNIT

"ASTIKA AKINITA S.A." (43 Panepistimiou str., 105 64 Athens), under its  
capacity as special liquidator, by virtue of Judgments nos. 583/1994 and  
229/1996 of the Larissa Court of Appeal, of the assets of the hotel unit under  
the title "SKIATHOS PRINCESS ELISABETH" (henceforth referred to as the  
"Enterprise") which is owned by the incorporated company "SKIATHOS TOURISM HOTEL AND GENERAL ENTERPRISES P.V.  
DERVENIS S.A."

## ANNOUNCEMENT

A repeat public call for tenders with sealed, binding offers, for the sale of  
the assets of the "Enterprise" which has come under special liquidation  
by virtue of article 46a, L. 1892/1990.

## BRIEF DESCRIPTION OF THE UNIT

The above unit is owned by the incorporated company "SKIATHOS  
TOURISM HOTEL AND GENERAL ENTERPRISES P.V. DERVENIS S.A." which  
was established by act no. 10,076/31.10.1986 of the Skithos,  
notary public Christos K. Giannoulas, with head offices in the Municipality of  
Skithos, Prefecture of Magnesia. The company operated the hotel unit until  
the issue of the above Judgments by the Larissa Court of Appeal,  
whereupon it came under special liquidation as provided by article 46a,  
L. 1892/1990 and the company ASTIKA AKINITA S.A. was appointed  
special liquidator.

The hotel unit under sale belongs to the Luxury Class and has a capacity of  
133 rooms-264 beds. It is located on the coast, at Agia Paraskevi, Isle of  
Skithos, at a distance of approx. 16km. from the town, on a site with a total  
area of 27,345.00 sq.m. The hotel complex consists of seven (7) main  
buildings - wings covering a total land area of 4,116.25 sq.m. plus covered  
areas, a total constructed area of 8,992 sq.m., and a number of auxiliary  
buildings serving the additional operational requirements of the unit.

## INVITES

any interested party to receive an offer memorandum and submit a sealed  
binding offer accompanied by a letter of guarantee by a Bank operating  
lawfully in Greece, for the sum of the hundred and fifty million drachmas  
(Drs. 150,000,000) and the contents described in the offer memorandum.

## CONDITIONS

- The public call tenders will be carried out in accordance with the  
provisions of article 46a, L. 1892/1990 which was added to the law by  
virtue of the provision of article 14, L. 2000/91, as amended, modified and  
applicable, the terms included in the present call for tenders and the terms of  
the primary and the additional offer memoranda, which interested parties  
may obtain after submitting a pledge of confidentiality in writing.
- In order to participate in the call for tenders, interested parties are  
invited to deliver a sealed, binding offer in writing by 11:00  
Tuesday, July 30, 1996 to the Skithos notary public Christos K.  
Giannoulas, 28 Papadimitriou street, 370 02 Skithos, tel: (0427)  
2.2222,  
fax: (0427) 2.1988.
- The offer and the letter of guarantee must be delivered in a sealed, opaque  
envelope by the interested party in person or by a duly  
authorized representative.
- The offer must mention clearly the amount offered for the purchase of the  
hotel unit "Enterprise" and must not contain any terms, options or  
vague phrases which might create uncertainty as to the amount, the  
manner of payment of the sum being offered or other matters related to the  
sale.
- Offers delivered after the expiration date will not be accepted and will not be  
considered. The binding nature of the offers will apply until the award of the  
sale.
- The assets of the "Enterprise" and all the secondary fixed or current  
assets of which they consist, such as real estate, movable objects,  
claims, name, title, rights, etc. will be sold and transferred "as and  
where they are", i.e. in their real and legal condition and at the place  
where they are located on the date of signing the contract of sale.

7. The liquidating company and the creditors representing 51% of total  
claims against the "Enterprise" (para. 1, article 46a, L. 1892/1990 as  
applicable) are not liable for any legal or real defects or the lack of any  
attributes of the objects and rights being sold, nor are they liable for any  
omissions or inaccuracies contained in their description in the offer  
memorandum or any correspondence.

8. Interested potential purchasers are obligated, under their own  
supervision, and by their own means, expenses and personnel, to  
investigate and acquire a personal perception of the objects being sold,  
and to mention in their offer that they are fully informed as to the real  
and legal status of the assets under sale.

9. The liquidator and the creditors mentioned in para. 7 above are entitled,  
according to their own judgement, to reject offers containing terms and  
options, or the phrases referred to in para. 4 above, regardless of whether  
they are superior to other offers as regards the amount being offered.  
In every case, the creditors are entitled, according to their own  
judgement, to dismiss offers containing terms and options, regardless of  
whether such offers are superior to others, or consider such terms as  
not included, in which case the offer remains binding as to its contents  
(article 2, para. 3, L. 2302/1995).

10. In the event that the highest bidder violates his obligation to come  
forward and sign the relevant contract within ten (10) days from the  
invitation by the liquidator and observe the obligations arising from the  
present announcement, the letter of guarantee is forfeited in favour of  
the liquidating company towards covering all its expenses of any type  
and its services, as also any direct or indirect damages, without the  
necessity of proving specific damage and as a penal clause in favour of  
that company, deemed as having been submitted with the offer, so that  
the guarantee may be collected from the issuing Bank.

The letters of guarantee are returned to all the other participants following the  
evaluation report of the liquidator, and to the successful bidder, to whom the  
sale will be awarded following the payment of the amount agreed and the  
drafting of the payment order.

11. The seals of the offers will be broken by the notary public  
mentioned above, at his office, at 12:30 on Tuesday, July 30, 1996.

12. The successful bidder will be the party whose offer will be judged by the  
liquidator and approved by the creditors mentioned in para. 7 of the  
present, as being the most advantageous for the creditors of the  
"Enterprise".

13. The liquidator will notify the successful bidder in writing of his obligation to  
come forward to the place and at the time determined in the  
notification, for signing the contract transferring the assets, according to  
the terms of the offer and any improved terms that may be indicated by  
the creditors and agreed with the highest bidder.

14. All expenses and costs arising from participation in the tender and the  
transfer of assets (such as taxes, stamp duty, notarial fees, V.A.T.,  
publications, etc.) will burden the interested potential purchasers and the  
highest bidder, as referred to in the above offer memoranda.

15. In the event of part of the purchase amount being on credit, the highest  
bidder will be under the obligation to provide any guarantee requested  
by the liquidator according to its own, exclusive judgement, and will be  
burdened with all related expenses and fees for the formation of such  
guarantees and their cancellation.

16. The liquidator and the creditors will not bear any responsibility or liability  
against those who participate in the tender as regards the evaluation of the  
offers, their recommendation of the successful bidder, the decision for the  
rejection or cancellation of the tender and any other decision relevant to the  
procedure and realisation of the sale.

17. The present announcement has been drafted in the Greek language and  
translated into the English language. In every instance however, the Greek  
text will prevail.

Interested parties may collect offer memorandums and receive other  
information from Mr. George E. Polimenides and Mr. Alexandros  
Meggos, 43 Panepistimiou str., 105 64 Athens, tel: 326.6113 and  
326.6080, fax no: 326.6118.



## CURRENCIES AND MONEY

## MARKETS REPORT

## Markets await the Treasury report

By Gillian Tett

Currency markets were subdued yesterday as dealers' attention remained split between the market swings in the US at the end of last week and the prospect of fresh UK policy developments today.

In the UK, the main focus of interest was today's summer economic forecast from the British Treasury. With the details of this not released until mid-morning, traders were reluctant to take strong positions ahead of the report.

However, for Continental European currencies, interest remained fixed on last week's comments from the Bundesbank about the likelihood of further German rate cuts.

Meanwhile, traders on both sides of the Atlantic continued to mull over the prospect of a US interest rate rise, following last week's stronger-than-expected US jobs data.

In the UK, the markets had

some mixed data to digest after official figures showed that manufacturing output was flat year on year in May.

The muted picture provided further evidence of the weak state of export markets. But though this left some economists concerned about the state of demand, it also had favourable inflation implications: prices for factory goods fell for the second month running.

On balance, economists decided that this made an interest rate rise fractionally less likely: the sterling futures contract for December rose by 5 basis points during the course of the day's trading to 94.74. At this level traders expect UK base rates to be slightly below 6 per cent by the

end of the year - or a fraction higher than their current level. The data was slightly supportive for sterling, helping it to maintain its level against a strengthening D-Mark and dollar.

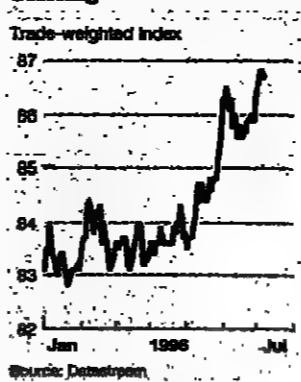
It closed at DM2.376, compared to a previous close of DM2.376. Against the dollar it closed at \$1.554, compared to \$1.555 at the end of last week.

And traders insisted that the main trigger for any fresh interest rate assumptions or currency movements was likely to come today, with the release of the Treasury's summer economic forecast.

This is expected to show that the government now expects borrowing to be higher than previously forecast, while growth this year will be a little weaker.

Elsewhere, trading in Continental European currencies was shaped by reaction to comments from Mr Hans Tietmeyer, Bundesbank president at the end of last week.

## Sterling



Source: DataStream

In the European currencies, the German D-Mark closed at FF3.385 against the French franc compared with FF3.380 the previous week.

It closed against the Italian lira at Lit005, compared to the previous close of Lit003.

Meanwhile, against the peseta it ended the day at Ptas84.04, compared to a previous close of Ptas84.05.

Against the dollar, by contrast, the D-Mark ended at DM1.538, unchanged from the level it settled at during Friday's European trade.

This flat position largely reflected the fact that the dollar - like the D-Mark - enjoyed a wave of positive sentiment during the day, as dealers began to consider the next round of interest rate rises.

This swing had been triggered on Friday by better than expected jobless data. These figures, coupled with signs of strengthening wage demands, triggered fears that the econ-

omy may face a risk of overheating.

The dollar strengthened in late US trading on Friday, and this bullish tone was maintained during the opening hours of European trade.

However, profit taking pushed the dollar back during the course of yesterday afternoon. And market observers warned that the bullish tone to the US currency was unlikely to provoke a dramatic strengthening while uncertainty remained about when US rates would rise.

"There is quite a bit of trepidation in the market as to the precise timing of a US interest rate hike," said Mr Stuart Thomson, chief economist at Nikko Europe.

"This swing had been triggered on Friday by better than expected jobless data. These figures, coupled with signs of strengthening wage demands, triggered fears that the econ-

omy may face a risk of overheating. The dollar strengthened in late US trading on Friday, and this bullish tone was maintained during the opening hours of European trade. However, profit taking pushed the dollar back during the course of yesterday afternoon. And market observers warned that the bullish tone to the US currency was unlikely to provoke a dramatic strengthening while uncertainty remained about when US rates would rise.

## POUND SPOT FORWARD AGAINST THE POUND

Jul 8	Closing mid-point	Change on day	Settlement spread	Day's bid/ask	One month Rate %PA	Three months Rate %PA	One year Rate %PA	Bank of England
Europe	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Australia	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Belgium	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Denmark	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
France	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Germany	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Greece	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Ireland	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Italy	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Japan	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Netherlands	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Norway	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Portugal	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Spain	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Sweden	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
Switzerland	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
UK	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0
USA	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	10.0

1 Rate for Jul 8. Settlement spread in the Pound Spot table shows only the last two decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Closing rates calculated by the Bank of England. Bank interest 1995 = 10.0. Interest 1996 = 10.0. Other and other rates in both the Pound Spot and Dollar Spot tables derived from THE WASHINGTON POST. Some values are rounded by the P.T.

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 8	Closing mid-point	Change on day	Settlement spread	Day's bid/ask	One month Rate %PA	Three months Rate %PA	One year Rate %PA	J.P. Morgan
Europe	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Australia	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Belgium	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Denmark	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
France	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Germany	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Greece	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Ireland	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Italy	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Japan	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Netherlands	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Norway	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Portugal	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Spain	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Sweden	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
Switzerland	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
UK	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0
USA	10.7384	-0.0012	0.05	10.7376/10.7392	10.7380	10.7380	10.7380	10.0

1 Rate for Jul 8. Settlement spread in the Dollar Spot table shows only the last two decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Closing rates calculated by the Bank of England. Bank interest 1995 = 10.0. Interest 1996 = 10.0. Other and other rates in both the Pound Spot and Dollar Spot tables derived from THE WASHINGTON POST. Some values are rounded by the P.T.

## CROSS RATES AND DERIVATIVES

## EXCHANGE CROSS RATES

Jul 8	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
Belgium	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Denmark	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
France	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Germany	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Greece	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Ireland	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Italy	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Netherlands	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Norway	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Portugal	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Spain	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Sweden	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
Switzerland	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
UK	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000
USA	16.7118	-0.0108	0.05	16.7110/16.7126	16.8000	16.8000	16.8000	16.8000	16.8000	16.8000

1 Rate for Jul 8. Settlement spread in the Pound Spot table shows only the last two decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Closing rates calculated by the Bank of England. Bank interest 1995 = 10.0. Interest 1996 = 10.0. Other and other rates in both the Pound Spot and Dollar Spot tables derived from THE WASHINGTON POST. Some values are rounded by the P.T.

## UK INTEREST RATES

## LONDON MONEY RATES

Jul 8	Overnight	7 days	One month	Three months	Six months	One year
Interbank Sterling	5.5	5.5	5.5	5.5	5.5	5.5
Bank of England	5.5	5.5	5.5	5.5	5.5	5.5
Local authority	5.5	5.5	5.5	5.5	5.5	5.5
Discount market	5.5	5.5	5.5	5.5	5.5	5.5

UK clearing bank base lending rate 5.5 per cent from June 6, 1996.

## Certs of Year dep. (€100,000)

Certs of Year dep. (€100,000) in Euros. Deposits withdrawn for cash 14 days.

Agreed rate of discount on Jul 5, 5.4475%. BDOE base rate 5.5%. Deposit, Deposit, Make up day.

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## EUROPEAN CURRENCY UNIT RATES

## EURO CURRENCY UNIT RATES

Jul 8	Rate
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# GHANA

## African trailblazer begins to falter

A lapsed recovery programme prompts concern about prospects for the continent as a whole, say **Michael Wrong and Michael Holman**

Thirteen years after Ghana launched Africa's first economic recovery programme, the country long regarded by western donors as the continent's model reformer is in difficulties.

Notwithstanding aid flows averaging \$600m a year, Ghana's annual GDP growth rate is falling below the minimum 5.4 per cent target. For the second successive year, inflation is running at an annual rate of more than 50 per cent, and interest rates are negative, forcing the International Monetary Fund (IMF) to step in and apply the screws.

More is at stake, however, than the welfare of a country that was in the vanguard of the struggle against colonial rule, winning independence from Britain in 1947.

Ghana's subsequent decline turned it into a symbol of Africa's malaise. But since 1983, when President Jerry Rawlings launched his reform programme, the country has become synonymous with hopes for Africa's recovery.

And when in 1992 military rule gave way to multi-party elections and a return to civilian government, it gave encouragement to a continent struggling to combine structural adjustment with democracy.

Thus if Ghana falters in its trailblazing role, not only will international confidence in the continent's capacity to recover be jolted, the credibility of the donors' development strategy for Africa will also be eroded.

For all the considerable achievements of President

Rawlings and his government - maintaining peace and stability in a troubled region, and reviving an economy devastated by mismanagement and coups - Ghana is falling short of its objective: sustained high growth, fuelled by high domestic savings and substantial foreign investment.

The presidential and parliamentary elections, only six months away, come at a crucial stage in Ghana's post-independence history, and Mr Rawlings is in a dilemma.

If he does not meet the tough conditions of the Fund's enhanced structural adjustment facility, which require severe cuts in state spending, he risks alienating the donors, and further undermining an already faltering recovery programme.

Yet to comply with the IMF terms risks an electoral backlash, certain to be exploited by opposition parties which believe they can unseat the man who has ruled Ghana for 15 years - provided, that is, they can form a united front.

But Mr Rawlings is not the only one in a dilemma. So, too, are the donors. They are caught between the need to put Ghana's reform programme back on track, and their fear that if they enforce the painful measures now necessary, they could threaten the re-election of the man most of them still believe is the best candidate for the job.

Just five years ago it could be argued that Ghana was poised for take-off. The Rawlings government had brought inflation down to 18 per cent, GDP growth in 1990 reached 5.3 per cent, and private investment had risen to a 10-year high of 5.1 per cent of GDP.

But an opportunity was squandered. Spending in the run up to the 1993 election, which marked the end of military rule, rose sharply.

It helped secure Mr Rawlings' election, but the country has yet to recover from the

damage done.

Four years later, it remains to be seen whether the government has learned from the lesson or whether political expediency will triumph once again.

A bumper cocoa crop - the highest for a decade - and a booming gold sector, whose exports have supplanted cocoa as the country's main export earner, have boosted economic performance. But reasserting fiscal discipline still requires tough measures.

In a pledge addressed as much to anxious donors as to Ghanaians, Mr Rawlings has vowed not to repeat the mistakes of 1991-2.

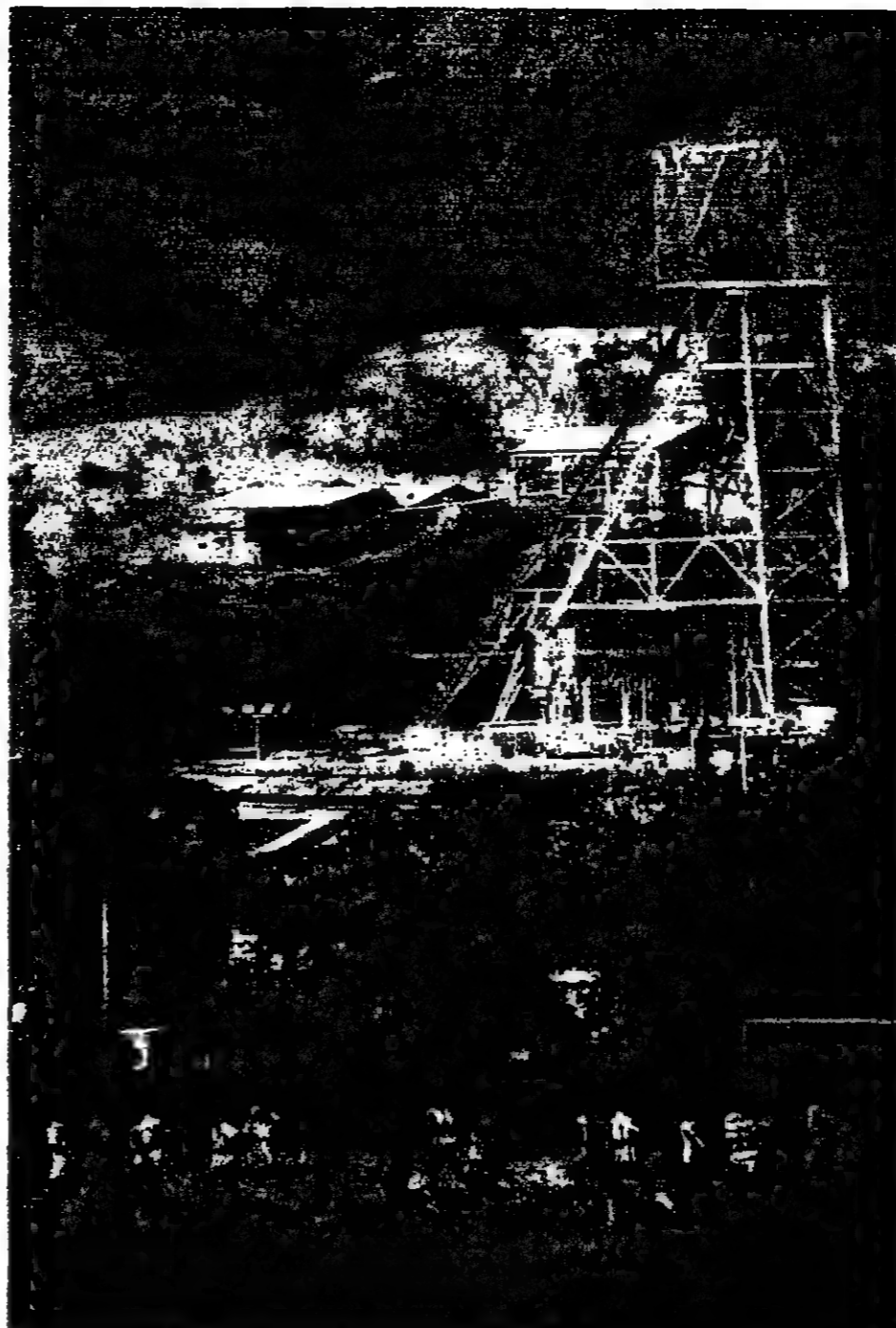
"This government has no intention of subordinating the nation's economic interests to political expediency," the president said earlier this year, a theme taken up by the country's finance minister, Kwame Peprah, when presenting the 1996-7 budget in June. "Our proposals today aim to avoid the populist path, the path of least short-term resistance," said Mr Peprah.

Under the terms agreed with the IMF, the annual rate of money supply growth is planned to fall from almost 40 per cent at the end of 1995 to 5 per cent by the final quarter of this year. Tight controls are imposed on the government budget, particularly in the road building sector, where over-spending in the past has been one of the factors behind inflation.

Meeting these targets in any year would be difficult. In an election year, it may be unrealistic. The government's recent record, let alone its performance in 1991-2, does not inspire confidence.

Sceptics point to the disappointing performance in 1995, when budget targets, including a reduction of inflation to 15 per cent, proved little more than wishful thinking.

Last year "represented one more year in a series of dashed hopes and frustrated expecta-



Ashanti Goldfields at Obuasi: the mineral is Ghana's biggest export

tions", commented the Centre for Policy Analysis, the independent Accra think-tank headed by Dr Joe Abbey, a former ambassador.

The two main opposition parties, the New Patriotic Party (NPP) and the Peoples Convention Party (PCP), are doing their best to make political capital out of the government's economic difficulties.

In 1993, Mr Rawlings's

National Democratic Congress (NDC) stroled to victory in the parliamentary polls after the opposition withdrew, alleging rigging of the presidential polls.

This year the NDC's task will be a lot harder: the opposition is not planning to boycott the exercise, and hopes to field a single presidential contender, while presenting joint candidates in the constituencies to

ensure a hefty block of parliamentary seats.

Most observers will believe it when it happens, for the rivalries run deep, and the NDC has shown itself adept at sowing the seeds of discord among its opponents.

Nonetheless, the NDC seems worried enough about its electoral prospects to be tempted to try to spend its way to victory.

One area of potential political patronage is investment in roads, which in 1995 rose to 54 per cent of the capital budget, amounting to 6 per cent of GDP. The 1996 programme calls for a sharp reduction in capital outlays to 3.9 per cent of GDP from 6 per cent in 1995, with the road construction programme taking the biggest cuts.

Under the agreement with the IMF, arrears in payments to contractors are supposed to have been cleared or rescheduled. But local commercial bankers are noticing that some contractors are once again borrowing to fund projects, with the intention of submitting their bills to government after the election is out of the way.

Although the political motives seem clear - roads win votes - the issue also goes to the heart of one of the biggest problems faced by African countries implementing structural adjustment programmes. Weak infrastructures hamper development and deter investors, foreign and domestic. It is hard to see how cuts in spending on roads is compatible with development.

Yet, in sectors where private investors could provide management expertise and capital, Ghana is moving slowly, and state-owned enterprises such as Ghana Airways and the telecommunications corporation have yet to be privatised.

Meanwhile, all is not well within the ranks of the NDC itself. Seventy-five MPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation". The clumsy handling of a drug scandal at the Ghanaian embassy in Geneva and allegations of corruption among top officials have also tainted the government's image.

But most damaging to Mr Rawlings's re-election prospects is the mounting discontent in urban areas at the failure to achieve prosperity, and the impact on living standards of rising prices.

The picture is more encouraging for the president in the rural areas, which have clearly benefited from the reforms - a greater proportion of the sales prices going to the cocoa farmers, and employment opportunities provided in the rapidly expanding mining sector and timber business.

Few statistics better illustrate the resultant shift of spending patterns than figures

### IN THIS SURVEY

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Exchange rates  
Average for 1995: \$1=1,200.43 cedis  
Average for 1996 (up to June 30): \$1=1,533.58 cedis

Production editor: Roy Terry

provided by Unilever. Five years ago, between 60 per cent and 70 per cent of its sales were in urban areas; today that proportion has dropped to between 40 per cent and 50 per cent.

The combination of rural backing and divisions in the opposition may yet be enough to see the president and his party back in power, albeit with the prospect of a much-reduced parliamentary majority for the NDC.

But if it is achieved through breaking the spending targets agreed with the Fund, the price will be high. As one diplomat pointed out, in 1991-2 "it took a year for the increase in money supply to work its way through the system. This time the whole economy is on an inflation footing and if they did the same thing again, the cedi would collapse."

If on the other hand, the government refuses to take the path of expediency, Ghana still faces a demanding period. As an IMF paper notes, despite the progress made during 1983 to 1991, "real per capita growth averaged 2 per cent a year" during this period. "At this rate, Ghana's average poor would not cross the poverty line for well over 30 years".

It may well be that this is all Ghanaians can hope for. But if this is the best that structural adjustment can offer Africa, the continent faces a long haul.



REPUBLIC OF GHANA

### DIVESTITURE OF STATE-OWNED ENTERPRISES

The Government of Ghana, as part of its overall Economic Recovery Programme, is pursuing a programme of divestiture of state-owned enterprises. The Divestiture Implementation Committee ("DIC") was established by the Government to implement and execute all Government policies in respect of divestiture programmes.

The divestiture programme is intended to reduce the size of the public sector and to improve the performance of enterprises by mobilising private sector management and capital. The financial and managerial burden on Government will be reduced and the state will be able more efficiently to manage the business of Government. The proceeds from the sale of enterprises can be used to improve, among other things, infrastructure, health services and education.

#### MODE OF DIVESTITURE

Information and documentation is collected on each enterprise listed for divestiture. Once that has been done, a decision is made as to the preferred mode of divestiture. This will usually be the sale of the enterprise's assets by competitive tender. However, other options include the sale of shares (particularly where the enterprise already has some private sector investors), the creation of joint venture companies between the state and private sector investors and the leasing to private sector investors of an enterprise's assets.

#### ACCELERATION OF THE DIVESTITURE PROGRAMME

The Government, through DIC, is committed to an acceleration of the divestiture programme. This is being achieved principally by means of outsourcing some divestitures to the private sector. DIC closely monitors subcontracted work to ensure that it is carried out in accordance with DIC's procedures and statutory responsibilities.

DIC maintains a Register of pre-qualified firms to undertake work on divestitures. Except for

small assignments or in exceptional circumstances, DIC, in the case of each assignment, draws up a short list of suitable firms appearing on the register. The short-listed firms are invited to submit proposals in connection with the assignment concerned and the winning firm is selected on the basis of those proposals.

#### INVESTMENT ENVIRONMENT

Private investors in the divestiture programme are benefiting from the macro-economic and sectoral reforms introduced under the Government's Economic Recovery Programme - most notably the rehabilitation of economic and social infrastructure, the liberalisation of imports and foreign exchange, as well as easy remittance of dividends, profits and fees abroad. In addition, trade regimes devoid of public intervention and reforms that have reduced company taxes have helped to make the business climate more conducive to investment.

#### INVITATION TO PARTICIPATE

The Government is fully committed to the divestiture programme and, accordingly, invites all investors, both local and international, to participate in it.

DIC will provide full details of the divestiture procedure to be followed in any particular case.

#### ENQUIRIES

For more information on the divestiture programme, please contact:

Executive Secretary  
Divestiture Implementation Committee  
P35/5 Ring Road East, North Labone  
P.O. Box C102, Cantonments  
Accra, Ghana

Tel: (233-21) 772049

(233-21) 773118

(233-21) 760281

Fax: (233-21) 773126

Telex: 2516 DIC GH

E-mail: dlogh@nca.com.gh

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## 2 GHANA

■ **Economy:** by Tony Hawkins

# Back in the intensive care ward

Analysts are sceptical about the will to meet the tough targets set for next year

"If the government can keep its nerve and its hands in its pockets and not in the till, then it might just make it," says a Ghanaian businessman. This widely-held view underscores the reality that Ghana will only meet the tough targets set for the next year and regain some of its former prestige as Africa's structural adjustment success story if the government's political will and management capacity measure up to the task. There are mixed signals on both counts which is hardly surprising less than six months before the elections.

Last month, Accra managed to convince the International Monetary Fund of its seriousness about maintaining fiscal and monetary discipline in an election year. Given the track record in Africa - and elsewhere - where governments have repeatedly turned a blind eye to fiscal and monetary targets to buy votes, scepticism is justified.

Indeed, given the slippages that have bedevilled the economy since 1982, the Fund was no pushover, and the mid-term review of Ghana's Enhanced Structural Adjustment Facility (ESAF) loan, which should have been completed at the end of 1995, dragged on into the second quarter of this year with Accra being forced to seek waivers for missed performance targets.

However, the grounds for scepticism extend well beyond the matter of political will. The targets, rightly described by one observer as "ambitious," involve transforming last year's marginal budget deficit of 0.1 per cent of GDP into a surplus of 2.4 per cent (or 0.6 per cent excluding privatisation proceeds), to be achieved by a combination of spending cuts, especially on road construction, increased revenue from privatisation, corporate taxes (including a substantial back payment of company tax by one of the banks) and higher tax receipts from cocoa.

There will be salary savings, too, partly from the government's wage deal with the civil service unions for a 30 per cent pay rise - less than half the headline inflation rate in the first four months of the year - and also reflecting reduced payments for terminal benefits.

The counterpart of fiscal restraint is the plan to bring down the rate of money supply growth from almost 40 per cent at the end of 1995 to 5 per cent by the final quarter of this year. While this looks ambitious - money supply growth actually accelerated marginally in the first quarter of 1996 - the authorities insist that they are on track. Reserve money, the benchmark used to target the money supply, declined some 6 per cent in the first four months of the year, suggesting that the central bank is sticking to its guns.

Balance of payments (\$m)			
	1994	1995	1996*
Exports of which	1,227	1,431	1,587
Gold	549	647	683
Cocoa	320	390	480
Timber	165	190	212
Imports	1,580	1,587	1,947
Trade deficit	353	156	360
Net services	-384	-400	-425
Private transfers	271	263	305
Official transfers	201	280	239
Current account	-265	-142	-211
Net capital	429	428	256
Overall balance	164	284	115

Source: IMF

The authorities are committed also to maintaining positive real interest rates as part of the plan to mobilise savings and restrain demand. Bankers, businessmen, diplomats and opposition politicians point out that money market interest rates - and even more so, bank deposit rates - are well below the headline inflation rate of around 65 per cent for the January-April period. They accuse the IMF of resorting to smoke-and-mirror tactics to demonstrate that the underlying (seasonally adjusted) inflation rate is, in fact, about half the headline rate, enabling it to claim that interest rates are already positive. But that claim carries little credibility when the Fund itself is forecasting annual headline inflation this year of 45 per cent.

Much of this sounds - and is - immensely technical. It is difficult to escape the conclu-

cent weakness of adjustment programmes; a short-termist approach that neglects the investment in physical and human capital necessary to exploit the benefits of macro-economic stability.

Indeed, reflecting the fall in government capital spending, investment will decline as a ratio of GDP this year to below 18 per cent, which might be enough to secure output growth of around 4.5 per cent - a far cry from the 8 per cent growth target set out in Ghana's Vision 2020 programme.

While official figures show that Ghana has managed to reduce poverty by cutting the proportion of the population living in poverty from 36.4 per cent in 1987/8 to 31.5 per cent in 1991/2, this is purely a rural phenomenon, reflecting the recovery of the cocoa industry, in particular. In urban areas, poverty deepened slightly and

Money supply and inflation rates			
	Inflation	Money supply	
	Target % p.a.	Actual % p.a.	Target % p.a.
1990	15	36	10.5
1991	20	10	15
1992	5	13	12
1993	20	28	0
1994	15	34	46
1995	10.5	71	14
1996*	45	n.a.	17

Source: IMF

sion that the Fund's computers have been allowed to dominate its judgment. The very precision of some of the targets in a country where the actual economic database is profoundly weak suggests that fine-tuning has taken precedence over pragmatism.

This is not to question the broad thrust of the policy, which is undoubtedly appropriate from a short-term viewpoint. Many, however, will be unhappy with its longer-run implications, especially the reduction in public sector investment spending, which needs to be increased because it is clear that private sector growth is being constrained by Ghana's weak infrastructure.

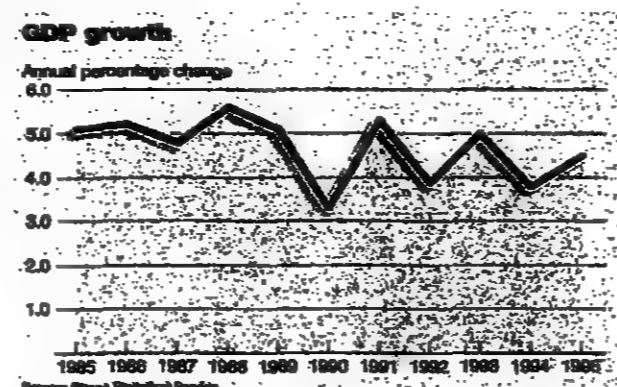
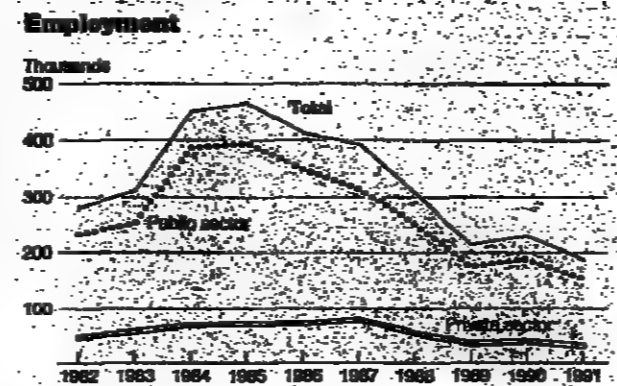
In the 1996 budget, recurrent spending is up slightly at 17.1 per cent of GDP, with interest payments rising to 4.7 per cent from 4.3 per cent last year. But development expenditure is down to 3.9 per cent of GDP from 6 per cent last year, with the result that overall public spending falls to 21.4 per cent of GDP from 23.7 per cent in 1995. This underlines a signifi-

cant trend may well have been maintained over the past few years, though no meaningful numbers are available to show what has been happening.

In the decade to 1991 - the most recent year for which there are figures - employment grew strongly until 1986 when it peaked at 464,000, before collapsing dramatically to 158,000.

If the official statistics are accurate the public sector shed some 240,000 jobs in the five years to 1991, while private sector employment, which accounts for only 17 per cent of the total, fell almost 50,000 to only 31,000.

Official studies show self-employment, especially in services in rural areas, compensating for this situation with the informal sector producing at least a fifth of GDP. But sustained poverty reduction will only be achieved by increased formal sector wage employment. Sadly, the Ghana Investment Promotion Centre's experience suggests that only 15,000 new jobs have been created by the 305 new projects approved



since September 1994, implying that it costs \$15,000 to create a single job.

With savings levels averaging less than 10 per cent of GDP, it is obvious that private foreign investment is the key to sustained recovery. Under current conditions, Ghana cannot hope to attract sizeable foreign inflows except in the mining sector, and possibly, through privatisation, though here too the number of ventures likely to win foreign support is relatively small. Given the country's rundown infrastructure and narrow domestic market, multinationals seem unlikely to be attracted by manufacturing opportunities, especially since there are formidable transport and tariff obstacles to servicing the regional market from Ghana.

Infrastructure shortcomings will constrain efforts to develop export-driven manufacturing activities in Ghana's recently-launched free zones, especially since labour is not particularly cheap by East Asian standards. The minimum wage is just over \$1 a day and while this is likely to fall with the continuing depreciation of the cedi, it is difficult to see Ghana becoming globally competitive in the medium term, other than in mining and agriculture.

Despite this, the external payments situation has improved mainly on the strength of strong gold and timber exports and the recovery in the cocoa sector. However, with export volumes having grown strongly in only two of the past six years, the balance of payments has been sustained by weak import demand - import volumes fell almost 20 per cent in 1994/5 - and by sharply higher export prices which have risen more than 40 per cent since 1992.

With gold export growth likely to slow as production flattens out at Asantasi's Ob-

asi mine and timber production being cut for environmental reasons, Ghana needs to expand non-traditional exports which last year were worth \$150m, of which a third was electricity.

Britain is far and away the country's main trading partner, accounting for almost 14 per cent of total foreign business, followed by Germany and the US with between 9 per cent and 10 per cent each. Two thirds of Ghana's exports are sold to industrial countries which supply 60 per cent of imports, implying scope for trade diversification, especially in Africa and Asia.

The external debt situation has stabilised, too, with the foreign debt/GDP ratio falling to 80 per cent last year from 95 per cent in 1994, while, after reaching 36 per cent of exports in 1995, debt-service payments are forecast to decline to 21 per cent by 1998.

With real per capita incomes having risen 8 per cent since 1990, Ghana is performing better than most sub-Saharan economies, but as Ghanaians themselves are the first to point out, that does not mean very much. Not only that, but having graduated out of structural adjustment in 1991, the country is now back in the IMF's intensive care ward. And even if the administration does put economics before politics over the next six months to the point where relative price - and exchange rate - stability can be restored, it will have won no more than a minor skirmish and a brief breathing space.

In the absence of Asian-style foreign direct investment inflows, the economy will continue to expand at 4 per cent to 5 per cent annually while the living standards gap with the world's dynamic economies continues to widen. Surely, there is more to "successful" reform than this?



Current factory: Ghana sees itself as the most attractive investment location in West Africa

■ **Investment:** by Tony Hawkins

## Foreign capital needed

Ghana sees itself as a gateway to the Economic Community of West Africa states

Ghana's capacity to transform aid-driven structural adjustment into sustained economic growth hinges on its ability to increase very substantially private sector savings and investment. The track record for the first five years of the 1990s is less than inspiring - private sector investment averaging 4.9 per cent of GDP funded by private savings averaging a mere 5 per cent of GDP.

If the economy is to grow at the 8 per cent rate targeted by government, investment levels will have to double from the 15 per cent average - public as well as private - achieved between 1991 and 1995 to around 30 per cent a year. In a low income economy, with per capita incomes growing at only 1.5 per cent annually, private savings are not going to fuel an investment boom.

Nor for that matter will public sector investment do the trick given the commitments to a budget surplus, to cutting back government's capital budget and to using privatisation proceeds to repay public debt. Over the next three years (1996-1998) central government capital spending will decline to less than 4 per cent of GDP from 4.5 per cent over the past four years.

So how can the economy double its investment rate so as to accelerate economic growth? Aid is one possibility, but an unproven one given not just the low productivity of aid, but also the worldwide cutback in disbursements. Indeed, Ghana's own forecasts of official grants and long-term loan disbursements point to a decline of some \$60m annually from recent levels, leaving foreign direct investment to provide the necessary impetus.

Yet here, too, the IMF's numbers are no more than modest. The Fund projects direct investment of less than \$40m zones in an effort to attract job-intensive export-oriented investment. Free zones are being set up at Tema and Takoradi and there is also provision for stand-alone single factory zones, whereby a business, exporting at least 70 per cent of its output, can apply for its factory to be designated as a free zone. Incentives include a 10-year tax holiday, with a maximum subsequent tax rate of 8 per cent, compared with the standard corporate rate of 35 per cent.

There are no restrictions on equity ownership in the zones, profits are freely remittable with no withholding taxes payable on dividends. Employees are free to negotiate wages and working conditions with workers and labour unions, provided such terms are consistent with International Labour Organisation conventions. The 10-year tax holiday provision also applies outside the free zones to such activities as cocoa farming and production, cattle ranching, and the production of free crops. The 8 per cent incentive tax rate applies also to income earned from non-traditional exports, while hotel profits are taxed at 25 per cent.

It is questionable whether incentives are decisive in influencing investment location decisions in Africa in the mid-1990s. The reality is that most of the region's foreign investment is resource-intensive and location-driven - mining, energy, tourism, agriculture and agro-processing. Export platform and gateway investment is deterred by weak infrastructure, scarce skills, especially management, and the quality of labour which, increasingly, matters more than labour costs alone.

While Ghanaian officials highlight their country's strategic location as an island of peace and stability in a politically volatile region, this is something of a double-edged sword.

If the large markets in the region, especially Nigeria (\$50bn) are unattractive for reasons of political instability, then multinationals are 'as likely to stay away from the region altogether and export into the West African market from outside, rather than risk investing in Ghana, on the off chance that it will prove to be a viable platform for exploiting the Koozwa markets.

None of this suggests that Ghana is about to attract the levels of foreign direct investment necessary to transform it from a 4 per cent to 5 per cent growth economy, driven by aid and mining investment, to a 6 per cent to 8 per cent growth economy, driven by substantially higher levels of private sector investment.

\$225m (about \$76m) represents new foreign equity, and half (\$112m) foreign loan capital. The balance of \$38m (16 per cent) is made up of the local contributions of joint-venture partners.

Most of the registered projects - more than 70 per cent - are joint ventures with the balance of 27 per cent being wholly foreign-owned operations.

These numbers, which refer to registrations as distinct from actual investments, understate the true position because the GIPC does not handle the all-important mining sector.

By African standards, the implementation rate is high. By March this year, the GIPC had visited 115 (59 per cent) of the registered projects and found that just over 80 per cent had actually taken off. This compares with a figure of just over 50 per cent in Zimbabwe.

Ghana sees itself as the most attractive investment location in West Africa, where it believes it can fulfil a regional gateway role, attracting foreign companies wishing to penetrate the Economic Community of West Africa States (ECOWAS) market. Ghanaian policy-makers are right to focus on export-led activities, given the narrow domestic market (\$7.3bn) and low levels of per capita income (\$430).

But regional investment has little appeal in the light not just of Ghana's depleted transport and inadequate energy infrastructure, but also the many obstacles to cross-border trade within ECOWAS. One businessman says it takes 11 days to send a lorry load of products to Cote d'Ivoire - a journey that in Europe would take a day and a half. Hopes of attracting regional investment are unlikely to be realised until both the infrastructural and administrative obstacles to cross-border activity are overcome. That is going to years, if not decades.

Along with many other African countries, Ghana is setting up export processing (free) zones in an effort to attract job-intensive export-oriented investment. Free zones are being set up at Tema and Takoradi and there is also provision for stand-alone single factory zones, whereby a business, exporting at least 70 per cent of its output, can apply for its factory to be designated as a free zone. Incentives include a 10-year tax holiday, with a maximum subsequent tax rate of 8 per cent, compared with the standard corporate rate of 35 per cent.

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Investment registrations (September 1994-March 1996)

Sector	Number	Value (\$m)	% of total
Manufacturing	55	99.9	40.0
Services	91	71.7	35.5
Construction	22	28.4	12.7
Agriculture	20	23.8	10.7
Other	47	7.3	3.1
Total	335	225.1	100.0

Source: Ghana Investment Promotion Centre

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### FLOORING

Ghana has species for all kinds of flooring from industrial to domestic. Handsome, hardwearing, abrasion resistant. Danta, Mansonia, Bonsamdua, Apa, Kusia and many others.

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Protecting coasts and river banks is one of the most testing tasks for timber. Ghana has some of the best: Potrodum, Kusia, Kaka and Danya. They are among the world's strongest timbers.

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Overlays for interior decoration come from a range of Ghana's light coloured species, Kyenkyen, Otie, Asanfina, Ceiba and Obaa, as well as from many redwoods.

Descriptions of the properties and uses of Ghana timber species are given in the 37-page booklet 'Tropical Timbers of Ghana'. For more information about the publication and about supply channels contact TEDB at the addresses below.



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FT Surveys

## ROMANIA



Constanta: modernisation under way will restore the port's central role in regional trade

## The political heat is on

With elections in view and support for the ruling party waning, reforms are falling victim to populist measures, say Virginia Marsh and Kevin Done

This year the Romanian summer will feel hotter than usual. Although the autumn's elections are four months off, the campaign is under way, sound but unpopular economic policy decisions are being sacrificed to the race for votes, and the country's splintered political forces are busy negotiating pacts and choosing their presidential candidates.

The poor performance of the ruling Party of Social Democracy (PDSR) in last month's local elections, the first nationwide polls for four years, has given centrist and centre-right opposition parties their greatest chance yet to win power at the national level and end the former communists' seven years in government.

This increases pressure on the PDSR's minority govern-

ment to take populist measures at the expense of market-led reforms. These have already included wage increases in the state sector, fixing the exchange rate of the lei at artificially high levels, delays in raising centrally-controlled energy prices and channelling huge subsidies to agriculture.

Such measures are taking their toll on the country's fast-growing but fragile economy. Florin Georgescu, finance minister, has been reluctant to abandon publicly an end-December inflation target of 30 per cent and insists that restructuring of the state sector is continuing apace.

Independent analysts, however, say inflation may rise to 30-40 per cent and that, in spite of the efforts of the motivated but small government restructuring agency, restructuring has slowed, reflected in the fall in unemployment to 8 per cent, continuing large stocks of industrial goods and high inter-enterprise debt.

However, the looming presidential and parliamentary elections, due on November 8, are proving a powerful incentive to complete a mass privatisation programme, the government's

most ambitious undertaking. The scheme will transfer to the population stakes of up to 80 per cent in nearly 4,000 state companies, accounting for nearly a third of gross domestic product in 1994.

In parallel, an over-the-counter market is being set up, with US help, to deal with the huge trading volumes expected. Capital market development has also been helped by the National Bank of Romania's recent bond issues, its first on global markets in half a century.

Although the programme will privatise majority stakes in only a portion of the companies, it should break the state's grip on much of the economy and raise the share of the private sector, especially in industry. At present, the private sector accounts for about 45 per cent of GDP but is concentrated in agriculture, services and trade, providing just 16 per cent of industrial output.

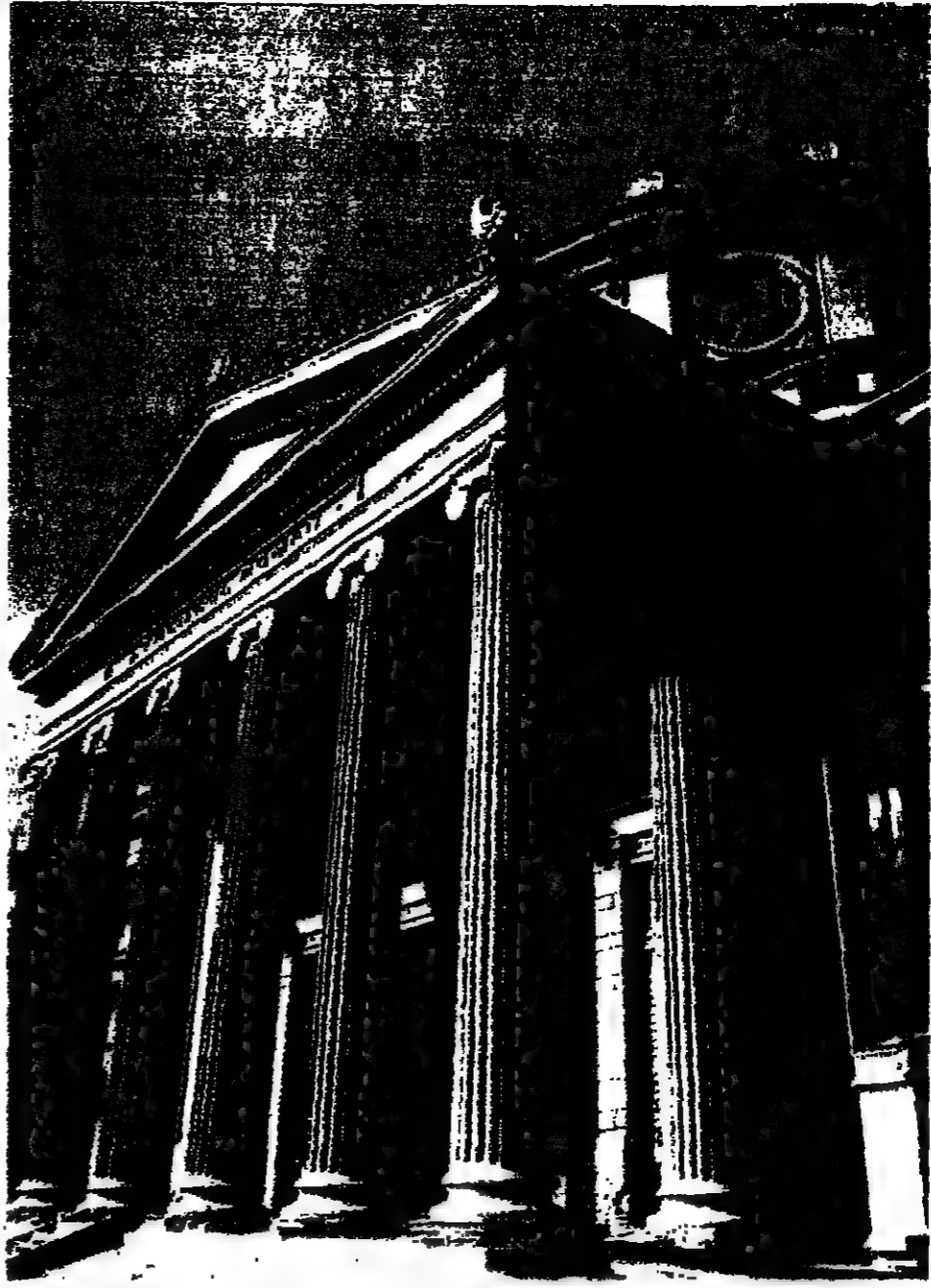
The programme is also being viewed with interest by foreign investors who have exhausted many of the best acquisition possibilities in central Europe. "The heat of the searchlight is passing from countries like the

Czech Republic and Hungary to Romania," says Henry Russell, resident representative of the European Bank for Reconstruction and Development. "But Romania must get through its election year wobbles."

Although the government frequently states its commitment to foreign investment, companies say it remains difficult to negotiate with the State Ownership Fund (SOF), the main privatisation body, and that large deals often go ahead only after the intervention of senior politicians.

This is a big problem in a country in desperate need of capital to raise low local living standards, improve its infrastructure and capitalise on its human and natural resources.

"Much of the private sector consists of mom and pop type enterprises with little capital or know-how, dependent on the energy of the individuals who run them," says a western banker in Bucharest. "At the same time, most foreign investors so far are primarily interested in consumer goods and the domestic market. But the authorities are pinning their hopes on export-led growth,"



The Athenaeum, the city's turn-of-the-century concert hall

he says. "A main concern has to be the absence of long-term, large-scale investment in old and new export industries."

The difficulties at the SOF highlight one of the greatest short-comings of Romania's fledgling democracy: the failure to develop sufficiently the institutions of a market economy and a modern state.

"People complain about the bureaucracy in Romania," says a former senior official, now working in the private sector. "Our problem is we have no proper bureaucracy. There are no rules, no clear systems,

institutions don't work and corruption is huge." He believes this can be resolved only by a change of government. "I still consider the PDSR has the best people," he says. "But the ruling party needs to know what it is like to be in opposition."

It is hoped that, whatever the election results, the future executive will enjoy more political support than the present administration. Prime Minister Nicolae Vacaroiu only recently joined the PDSR and few members of his cabinet are senior party officials, contributing to

a power vacuum at the heart of government. This has slowed decision-making and encouraged a lack of transparency.

Together with its hesitant pursuit of market-led reforms, this has led opposition parties to accuse the PDSR of developing a Latin American-style system, bent on keeping Romania at the back of the queue for European integration.

"In this year's elections Romanians can choose between two directions - a South American-type state led by a cynical, rich and corrupt oligarchy... or they can opt to

become a real democratic state supported by a healthy economy and a middle class capable of ensuring social stability," says Emil Constantinescu, who heads the centre-right Democratic Convention (CDR), the main opposition coalition. Mr Constantinescu is the CDR's candidate in the presidential elections - a rare analysts expect the incumbent Ion Iliescu to win.

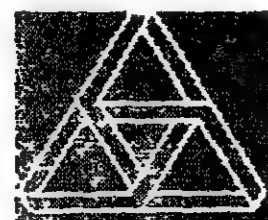
While short of funding, the CDR as well as Petro Roman's Democratic Party, the main component of the recently-formed Union of Social Democrats, the second opposition group, face the elections better organised than four years ago. The explosion of private local and national radio and TV stations, breaking the state's monopoly of the airwaves, has also helped the opposition.

However, it remains splintered. Dorel Sandor, head of the local CPSCA think-tank, says that to win in the autumn, opposition politicians must make alliances and show they can work together effectively on Bucharest city council and in the other areas won in local elections.

The PDSR had hoped that, after the next elections, it would be able to ditch its hard-line left-wing and far right allies. But its poor performance last month suggests it may have to rely on extremist parties, including an anti-Hungarian nationalist group, to stay in power. This means little progress is likely in agreeing a much-delayed basic treaty with Hungary before the autumn while the presence of nationalists in the government has also complicated similar treaties with Russia and neighbouring Ukraine.

The treaty has also been delayed over the unclear status of a small Black Sea island which might influence division of international waters between the two countries. Oil and gas prospects make this strategically important.

As well as adding to on-going exploration projects being undertaken with the help of western oil companies, Romania hopes to make the port of Constanta a gateway for energy and other raw materials from the central Asian republics. "This is a huge strategic advantage Romania can offer Europe," says Teodor Melescanu, foreign minister. He says the country hopes to begin negotiations for EU and Nato membership at the same time as the more developed central European states.



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## 2 ROMANIA

■ **Economy:** by Kevin Done

## A fragile condition persists

Despite a recovery, inflationary pressures continue and growth may start to slow

Romania is in its fourth year of economic recovery from the deep recession that followed communism's collapse. Last year it outperformed most other central and eastern European countries with a growth in GDP of 6.9 per cent, but the economy is still dangerously distorted. It is clear that the pace set in 1995 cannot be sustained and growth is forecast at a more modest 4 to 4.5 per cent this year.

Overheating of the economy in the second half of 1995 has presented the authorities with tough inflationary consequences and the central bank has been forced to tighten monetary policy with actions which may prove unpalatable in an election year.

Publicly government ministers repeat that the aim is to cut the inflation rate year-on-year from 27.8 per cent at the end of last year to 20 per cent by December, the target agreed with the IMF. But in private, officials accept that the target is already impossible to meet as inflationary pressures continue to build with consumer prices jumping by 5.3 per cent in May alone. "The experience of other transition countries has been that it is much more difficult to reduce inflation from 30 to 20 per cent and from 20 to 10 per cent than from 70 to 30 per cent," says Mugur Isarescu, governor of the National Bank of Romania.

The Romanian currency, the leu, is under pressure. Despite drastic measures taken to control the foreign exchange market, the central bank appears unable to bring the official and unofficial exchange rates in Bucharest into line. The persistence of an informal dual

exchange rate has been a point of contention between the Romanian authorities and the IMF, which is unhappy with the recent resort to restrictive regulations.

It is withholding the second \$70m tranche of the current stand-by loan until the inter-bank foreign exchange market is functioning properly.

A recent report by the Washington-based PlanEcon economic analysts said that "the restriction of foreign exchange licences has damaged Romania's image as a country moving towards reform".

While the official exchange rate has only recently moved just above 3,000 lei to the US dollar, the unofficial rate appears to have fallen to about 3,600 lei.

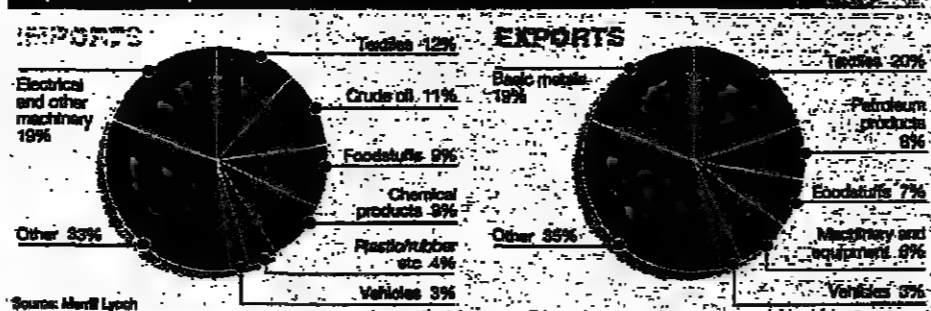
Between April 1995 and April 1996 the nominal exchange rate against the dollar fell from 1,579 lei to 2,915 lei. Further declines appear inevitable in line with the money supply growing strongly and the central bank beset by government pressure to loosen monetary policy in an election year. High interest rates have had only limited success in slowing the inflationary tide.

The overheating economy forced the authorities into a hasty rearguard action late last year in the face of a rapid deterioration in the current account of the balance of payments, with the deficit jumping to \$1.292bn in 1995 from \$428m a year earlier.

While exports grew by 22.2 per cent last year to \$7.5bn, they were outpaced by a 33 per cent jump in imports to \$8.75bn, forcing the government to apply the brakes. Interest rates were pushed up, the banks' foreign exchange reserve requirements were raised, government expenditure was reined in. Some import tariffs were raised and many tariff exemptions removed.

These measures resulted in a

Imports and exports 1995



Key economic data				
	1992	1993	1994	1995
GDP growth (%)	-10.0	1.3	3.4	6.9
Budget balance (%GDP)	-4.8	-2.4	-1.9	-3.6
Inflation (%)	199	295	62	27.8
Exports (\$bn)	4.4	4.9	6.1	7.5
Imports (\$bn)	5.8	6.0	6.5	8.8
Current account (%GDP)	-8.0	-4.5	-1.4	-3.5
External debt (\$bn)	9.2	2.9	5.5	6.5
Debt/export earnings (%)	66	38	77	74
Foreign reserves (excluding gold) (\$bn)	825	925	2,085	1,705

fall in imports of 17.3 per cent in the first five months of 1996, reducing the current account deficit. However, the country's exports are highly dependent on imports, not least semi-finished products and oil and gas (although this year's opening of the first reactor of a Canadian-designed nuclear plant in Cernavoda should cut energy import bills) and the squeeze on imports hit the country's foreign trade.

As the growth rate slowed, exports, too, fell by 11.9 per cent year-on-year in the first five months, although the continuing rise in industrial production suggests that some exports are not being recorded.

Romania has made much progress in re-orienting its foreign trade towards the west, although, as in many other aspects of economic reform and restructuring, it lags behind fast-track transition countries in central Europe.

Last year exports to and imports from the European Union both accounted for more than 50 per cent of the total, whereas in 1990 the EU's shares were 30 per cent and 20 per cent respectively.

Imports from Russia - on which Romania still depends for energy supplies - rose by 30 per cent last year. Exports are dominated by textiles and garments, which rose by 28 per cent last year to \$1.45bn, metals and metallurgical products, which grew by 31 per cent to \$1.39bn, and by chemicals, and wood and furniture.

Agriculture still contributes a higher proportion of GDP at 30 per cent and employs a larger proportion of the workforce at 35 per cent than in any of the other central and east European countries outside the former Soviet Union (with the exception of Albania). After last year's bumper wheat harvest, it has been hard hit this

year by a long and harsh winter and the government has had to boost the flow of cheap credit to the sector, undermining monetary policy.

Restructuring agriculture remains a daunting task, as in much of Romania's state-owned industry. Structural reform - including privatisation - is in its infancy. The private sector share of GDP is estimated at about 45 per cent and although rising, it is still well below other countries in central Europe.

Restructuring of state industries is under way but at a slow pace, and many remain loss-making, highly inefficient and burdened by heavy arrears. A recent study by IBCA, the European credit rating agency, said: "The degree of political consensus behind reform is not yet sufficiently robust to overcome the bureaucratic and other obstacles that can be put in the way."

■ **Privatisation** by Virginia Marsh

## A surprising success

The programme has attracted a far higher level of public participation than was predicted

Far from being the flop that its critics predicted, Romania's ambitious mass privatisation programme has so far been relatively successful, albeit well behind schedule. Even government officials were surprised at the high-level of public participation in the scheme - some 85 per cent of those eligible entered bids.

Romanians could use free privatisation coupons to bid for stakes of up to 50 per cent in nearly 4,000 companies or could invest in one of five regionally-based funds. Separately, the State Ownership Fund (SOF), the main privatisation body, is selling off at auction or through direct negotiation the remaining stakes in the companies, which together represented nearly a third of gross domestic product in 1994.

Majority stakes of 51 per cent in about 500 of the most attractive companies have been set aside for strategic investors. The European Union's Phare programme is funding Capital, a local investment bank, the UK's Charterhouse and Société Générale de France to advise the SOF on the sale of 40 of the companies, mainly in the export sector, to foreign investors.

The SOF began cash auctions last December but potential investors say it remains hard to negotiate with the fund and there is frustration at the slow pace of sales.

"It's an election year and the SOF's shutters are coming down. We're seeing a bit of a return to Romania for the Romanians. But Romanian business doesn't have the money to buy everything. The country does need foreign capital," says a western lawyer.

"Every week we talk to one or two significant potential investors but the number of bids that comes to fruition is negligible... There has to be a willingness to sell at a more realistic price."

Meanwhile, Romanians have begun to receive notification of the shares they have been allotted under the programme. It is understood that about a quarter of the companies were fully subscribed with about 500 over-subscribed - up to 30 times so. Sorting out who gets what is one of the many headaches the authorities must still resolve.

The most critical issue remains ensuring there is a

**It is absolutely critical the OTC works and that capital markets take off**

mechanism that allows trading of shares to take place. This is a significant challenge given that the scheme has created 15m shareholders - more than in most European countries. Unlike the Czech scheme, the programme did not allow Romanians to pool coupons and bid for blocks of shares.

Trading is due to take place through a US-sponsored over-the-counter market called Rasdaq, a Romanian version of Nasdaq, which was originally due to become operational earlier this year. As the market is to be dematerialised, one of the most important tasks is to establish a share register - again complicated by the huge numbers involved as well as by the country's poor communications.

"It is absolutely critical the OTC works and that capital markets take off," says a west-

ern adviser. "The MPP is important as it transfers ownership of companies to individuals. But what Romanian companies need to survive is cash."

Given the difficulties of negotiating with the SOF, the scheme will give investors their greatest chance to date to acquire local companies.

"This is a unique opportunity," says Valeriu Velciu, president of Unicapital, a local securities company. "We estimate that up to a third of Romanians will want to sell their shares immediately which means that prices will be low. This is the time for foreign financial investors to come in."

Like other brokers, however, he is concerned lest the delay in setting up the OTC leads to parallel, unregulated trading which might further damage the reputation of local capital markets.

The sector has taken something of a battering in recent months, following problems at mutual funds and the disappointing performance of the Bucharest Stock Exchange which re-opened last November for the first time since the second world war.

After getting off to a reasonable start, both turnover and prices of the 18 stocks listed on the exchange have subsequently plunged.

However, the SOF recently agreed to hold at least 10 initial public offers over the coming months - with technical assistance from the UK's Know How Fund - in a bid to boost the exchange's liquidity, as well as the credibility of capital markets in general, before Rasdaq opens.

After initial friction between the proponents of the two markets, it is intended that companies will graduate, in time, from Rasdaq to the BSE which hopes eventually to list the country's leading public companies.

■ **Banking and finance:** by Virginia Marsh

## Big four still rule the roost

Still dominated by state institutions, the sector cannot yet fully support a changing economy

Romania's nascent financial sector has reached a critical stage. Confidence has been eroded by trouble at several banks and mutual funds, the inter-bank foreign exchange market has all but ceased to function while confidence in capital markets has been hit by sagging prices and low turnover on the recently re-opened Bucharest Stock Exchange.

At the same time, the sector is being buoyed by the entry of several international banks

and the resources they bring with them, as well as by the country's successful re-entry on to international capital markets and prospects of a lively over-the-counter market later this year once privatisation vouchers are exchanged for shares in nearly 4,000 state companies.

For the time being, however, the sector is not sufficiently developed or robust to support Romania's fast-growing but cash-strapped economy. "The continuing high cost of borrowing and the weakness of local capital markets affect the competitiveness of Romanian industry more than anything else," says Ion Florescu, chief executive of Capital, a local investment bank, part-owned by Wasserstein Perella of the US and one of three local banks in which the European Bank for Reconstruction and Development has an equity stake.

"There is a great need for more imaginative financial solutions and products," says a western banker. "By now, for example, the state banks should all be going in for debt for equity swaps to help tackle the problem of bad debts."

The government's continuing influence over state banks, as well as inadequate regulation and legislative gaps are among the factors behind the sector's present problems.

For example, analysts say the biggest crisis to hit the sector to date - the insolvency of Dacia Felix, once a leading private bank - could have been avoided had action been taken earlier.

While irregularities at Dacia Felix first surfaced in the bank's 1994 balance sheet, it was not put under central bank supervision until last November and its management was only replaced this March. Meanwhile, the central bank has had to pump into the bank 1,000bn lei (\$330m) - a huge amount in a country where the average wage is less than \$100 a month. The bank's main problems stem from bad loans made to companies linked to one of its largest shareholders, Sever Muresan, a former Romanian tennis player.

Mugur Isarescu, central bank governor, admits the bank was slow to tighten supervision but says the legal framework and the need to protect small investors gave the authorities little room for manoeuvre. He says a deposit insurance scheme to protect savings will be created over the summer and that the authorities will introduce regulations enabling banks to be declared bankrupt. "Strengthening banking supervision is our most important policy goal at present," he says.

Similarly, the securities commission is tightening regulation of mutual funds, after a

liquidity crisis and suspected insider trading at FMOA, once the country's leading investment fund. Like Dacia Felix, the fund was created in a legislative vacuum - it was set up two years before the securities commission even existed.

Although confidence has plummeted, analysts welcome the authorities' apparent determination to get tough. "It's good that these problems emerged now. Later on they could have been more dangerous," says Valeriu Velciu, president of Unicapital, a local securities company and member of the Bucharest Stock Exchange.

Despite the emergence of private mutual funds and securities companies, the financial sector remains dominated by four large state commercial banks. The big four - Bancorex, the foreign trade bank, Banca Agricola, Romanian Commercial Bank and Romanian Development Bank - controlled 87 per cent of total assets of \$7,000bn lei in the banking sector in May, according to central bank figures.

In 1994, the government pledged to privatise RDB, the smallest of the four, and another bank as a condition of a financial and enterprise sector loan from the World Bank. Two years on, this has not happened, ostensibly because parliament has yet to pass a bank privatisation bill.

However, analysts say the government is unwilling to give up control of state banks, especially in an election year. "The banks remain an important tool of a centralised economic policy," says a local banker. "The government is afraid it will lose too much control by selling the banks."

This year, for example, the state is to channel 1,800bn lei of subsidised credits to farming through Banca Agricola. This has increased to dangerous levels the bank's exposure to the sector while the government is believed to have often delayed reimbursements to the bank, contributing to a fall in the bank's capital adequacy rate to well below the 8 per cent required under Basle rules.

In addition, forex reserves at state banks, in particular Bancorex and RCB, were run down by this winter's unexpectedly large energy imports which are still handled by state monopolies and financed centrally. Extra energy imports were one reason behind the country's forex crisis which caused the central bank effectively to close down the inter-bank forex market in March. The leu has since been held at an artificially high rate, passing through the 3,000 barrier in late June, at a time when it was already trading in the black market at about 3,600 lei to the dollar.

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## 4 ROMANIA

■ Profile: Ion Tiriac by Kevin Done

## Playing a winning game

Ilie Nastase's former doubles partner is bringing his many skills to bear on Romania

While Ilie Nastase, Romania's most famous tennis player, was taking a severe beating in his abortive effort last month to become mayor of Bucharest, Ion Tiriac, his former doubles partner, has been leaving a much more permanent mark on his country.

Since the collapse of communism Mr Tiriac has been bringing his considerable business talents to bear on Romania, the country that he led with Mr Nastase to three Davis Cup finals, but which he largely abandoned for 25 years during the worst excesses of the regime of the former dictator Nicolae Ceausescu.

Until the beginning of 1990 Mr Tiriac, once a top-class ice hockey player as well as international tennis player, had devoted his energies to building an international sports business career, first as coach and later as business manager and tournament promoter. His clients included Guillermo Vilas, Henri Lecointe and most famously Boris Becker.

From his main base in Monte Carlo he is still deeply involved in the business side of international sport, bringing expertise to a number of leading tennis tournaments on the ATP and WTA tours including from this year the ATP world championship in Hanover, and he has a joint venture with Rupert Murdoch's News Corporation for marketing the world swimming championship.

In Romania, however, Mr Tiriac has been seeking quite different opportunities in the fledgling capitalist market of the second most populous country in central and east Europe excluding the former Soviet Union.

His interests now span banking and insurance, car importing and distribution, airport services, commercial television, automotive components, lubricants distribution, real estate, advertising and media services.

He holds a 31 per cent stake and an option to buy up to 51 per cent in Commercial Bank for Tiriac, one of the most successful privately-owned banks to have started up in Romania and in which the European Bank for Reconstruction and Development holds a 20 per cent stake. The bank has 18 branches around the country

and plans for offices in New York and Frankfurt.

In addition, an insurance company, ASFT, Asigurari Ion Tiriac, still in its first year of operations, has 15 branches and 35 agencies around the country.

At Bucharest's main Otopeni airport Mr Tiriac holds a 25 per cent stake in Lutas, the airport services company responsible for both passenger and baggage handling. It is a joint venture in which Lufthansa also holds 25 per cent, Tarom, the Romanian state airline 37 per cent and the airport 13 per cent.

He moved early into the automotive sector and today holds 90 per cent stakes in the exclusive import/distribution rights for Mercedes-Benz (Automobile), Ford (Romcar) and Hyundai as well as in the Avis rent-a-car franchise (Aviroms). Mr Tiriac owns a one third stake in Rolem, a wood processing company near Brasov, which makes all the wood paneling trim for the Mercedes-Benz E and C-class cars.

He has a high profile investment in Pro TV, the first national, private commercial television network, which is controlled by Central European Media Enterprises of the US. Pro TV began broadcasting

in December last year and is already outperforming the rival state-run channels.

Mr Tiriac claims that his investment in Romania is now in excess of \$50m and that about 4,000 people are working in the companies where he is a leading shareholder.

He is in Romania two or three times a month, but only for short visits. "I fly 320 days a year, my business is where I am at any moment."

While some of the emerging high-flying entrepreneurs in Romania are clearly intent on building business empires, Mr Tiriac is different. "He is really a venture capitalist with a series of investments," says one former business associate. "He is an investor, he is not trying to run the businesses. He does not need the problems, the obligations, the hassles."

But Mr Tiriac has still built a formidable operation, much of which is financed and controlled from a series of holding companies in the Netherlands bearing names such as Red Room, Power Development and Balacava.

"He is one of the sharpest businessmen and tough as nails," says one banker in Bucharest. "What he does not know, he admits, and he hires the best people."

## PROFILE Tiriac

## Pioneer in raising finance

After securing a foreign loan, the syringe maker tapped local capital markets to help cover its costs

Sanevit is by no means Romania's largest private company but it is possibly its best known and, although set up just five years ago, is also among its oldest in the manufacturing sector.

Sanevit, which makes syringes at a plant in western Transylvania, was the first private Romanian company to secure a foreign loan after communism's collapse in 1989 - it borrowed \$37m to import equipment from Italy in 1991.

It has also been a pioneer in tapping local capital markets to help cover its financing needs. It was the first private company to hold a nationwide public offer, raising the equivalent of \$2.2m in a well-publicised offering organised by local broker Bursa Gelsor last summer, making it a household name.

In November, it became the

only non-state company to list on the fledgling Bucharest Stock Exchange. Its majority shareholder is Arasrom, a Romanian trading company. "Apart from the foreign loan, our principle is to raise financing from capital markets to avoid paying high local interest rates," says Mircea Roman, general manager of the company.

In January, when its stock was still high, Sanevit completed a scrip issue, only to see its share price plummet as confidence in the exchange faltered and after the company decided to re-schedule its foreign debt. It closed up 100 at 12,000 on June 27, a fraction of its all-time high of 71,000 last year. However, subject to market conditions, it plans to launch its first bond issue, possibly for 180m lei (\$4m) in the autumn.

Although private, the company was formed partly at the initiative of the Ministry of Health, which identified a need for a local disposable syringe producer and was prepared to give a government guarantee for the equipment loan.

Romania has a serious Aids problem, caused in part by poor hygiene and the re-use of syringes in the past.

Construction of the plant began in 1992 and production started in December 1994 with the first deliveries in March 1995. The company, which eventually hopes to produce about 180m syringes and 390m needles a year, has reported 444m lei net profit on turnover of 1,522bn lei for 1995.

**'We're in a business where the market is not going to disappear'**

Although the 1995 profit was above forecast, Mr Roman says that the company has not been able to work at capacity because of a shortage of local orders.

The Romanian market is estimated at about 300m syringes and 400m needles a year. However, Mr Roman says that when his team drew

up the first business plan the company was not aware that a large part of the market was covered by imported syringes that were financed by the World Bank.

This caused the company to turn towards exports which have included sales to France and Hungary - which is just 50km from Sanevit's plant in the border town of Arad. Mr Roman adds that exports have provided the company with hard currency - something which is often in short supply in Romania enabling it to pay for medical wrapping paper and the other imports it needs.

However, the World Bank programme is now drawing to a close and, in May, Sanevit won a substantial 100m lei order from the ministry of health for 62m syringes and 2.8m needles.

"We've already achieved a great deal and have demonstrated what can be done in Romania by a private company. The good news is we're in a business where the market is not going to disappear," he says.

Virginia Marsh

■ The brewing industry by Kevin Done

## Foreigners stake out positions

Global producers are eyeing up what they see as a market with bright prospects for sales

Foreign direct investment in Romania has lagged behind many other countries in the region, but with the second largest population in central Europe after Poland it is attracting the attention of many of the big international consumer products groups.

Setting the pace are several of the world's leading beer producers, which are staking out positions in a market they believe is ripe for restructuring and development and where the prospects for strong sales

growth are bright.

Groups such as Interbrew of Belgium, Germany's Brau und Brunnen and South African Breweries have taken majority stakes in existing breweries, while a new wave of investment has been triggered by Carlsberg and Heineken, Turkey's top brewer which have chosen to develop new breweries on greenfield sites.

Before the arrival of the big international groups the Romanian brewing industry was highly fragmented with about 40 small, regional producers, hampered from developing national brands by poor product quality and distribution.

That picture is changing rapidly, however, as the international brewers engage in a growing competition to establish a dominant position in the Romanian market. These moves are part of wider strategies for expanding throughout central Europe with the leading companies also investing heavily in neighbouring Poland, Hungary, Bulgaria, the Czech Republic and Croatia.

Interbrew, the Belgian producer of Stella Artois, is one of the international pioneers in Romania. With interests in Hungary, Croatia and more recently Bulgaria, it made its first step into Romania in mid-

1994 through the purchase of a 51 per cent stake in the Bianca brewery project in Blaj.

Now renamed as Bianca Interbrew Berghem, it began production in April last year of a beer developed for the Romanian market under the new brandname of Berghem.

Interbrew quickly followed this investment with the purchase of a controlling 51 per cent stake in the small Probeer brewery in Bala Mare (Maramures) in the north of Romania, which was producing under licence Hoffenking, a larger brand of the Regensburg brewery of Austria.

Probeer is expanding capacity to 450,000 hectolitres a year, which will give Interbrew an overall annual capacity of close to 1m hectolitres, two nationwide brands and a market share of about 10 per cent.

The international brewers are expanding rapidly with the introduction of modern technology, improved quality and investment in national marketing, sales and distribution.

"The big problem was the variable product quality," says Gerard Fauchey, Interbrew external affairs director. "The maximum shelf life was only about seven days, because they did not control the product. The small local brewers could

not distribute nationally because of the short shelf life."

The Romanian beer market is estimated at between 6m and 10m hectolitres a year, with a per capita consumption of 45 litres a year compared with 140 in Germany, 39 in France and 108 in the UK.

Competition is growing rapidly. Brau und Brunnen, the leading German brewery group and another early entrant, is the largest foreign brewer in Romania. Last year it acquired from the state an initial 51 per cent stake in the Pitești brewery in Pitești, about 110km west of Bucharest. The stake has since been raised to 75 per cent.

Brau und Brunnen claims a market share of 8.7 per cent and says it wants to raise this to 10 per cent. Its first significant move was the purchase of a stake in the Ursus brewery in Cluj-Napoca, in north-west Romania in 1992. It now has a shareholding of more than 60 per cent in this brewery, where it is developing Ursus as its national brand in Romania.

The Pitești brewery is being modernised with plant and equipment from the group's shut down Kilschloos production site in Hamburg, Germany. This is being transported to Romania for re-assembly in Pitești.

The most recent arrival in Romania is South African Breweries, which purchased earlier this year from the State Ownership Fund a 70 per cent stake in the Vulturul brewery

in Buzau, north-east of Bucharest with a 500,000 hectolitres capacity and a malt capacity of 11,000 tonnes.

SAB is investing about \$18m, including \$10m for the modernisation of the brewing facilities, packaging, distribution and marketing in the next five years. It has agreed to maintain the current workforce level for two years.

Other foreign brewers such as Carlsberg of Denmark and Efes are also building plants rather than make acquisitions.

The most ambitious project is being planned by Efes, the leading Turkish brewer and a subsidiary of the Anadolu group. It has leased land at Ploiesti, an industrial city north of Bucharest, for the development of a plant designed to be its export centre for central and eastern Europe.

The group has announced plans to spend up to \$140m during the next six years to create a capacity to produce up to 3m hectolitres a year, making it one of the biggest breweries in the region. Production is due to begin next year.

Carlsberg is taking a 30 per cent stake in a new venture Romanian Breweries Beroprod, along with Israeli and local Romanian partners. It is building a brewery at Pantelimon on the outskirts of Bucharest with an initial 500,000 hectolitres a year capacity to produce under the group's Tuborg brand, the most popular western beer brand in Romania.

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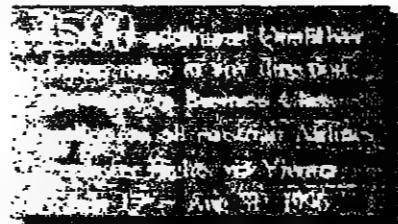
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AUSTRIAN AIRLINES

## A visitor's Bucharest

Bucharest no longer merits the title "Paris of the East" - a nickname it earned in more prosperous times earlier this century - but the capital is rapidly becoming an easier and more pleasant place to visit.

The international airport at Otopeni, 20km north of centre, is served by several leading airlines, while Tarom, the troubled national carrier, flies to most European capitals as well as to Beijing and New York. Most western nationals (although not US citizens) need visas but these can be purchased on arrival.

In theory, a taxi into the centre should not cost more than 1000 lei (\$0.50) a kilometre, the rate for locals, but, even after bargaining, westerners are likely to pay \$10 to \$20.

Top class hotel space is still in short supply so book early. The newly-built Sofitel (tel: 00 40 1 3123000) in the World Trade Centre is the city's most luxurious hotel although it is not as central as the dowdy Intercontinental (tel: 0140400) or the recently-renovated Lido (tel: 0144830). The Sofitel charges \$90 a night for a single compared with \$240 at the Intercontinental and \$230 at the Lido which also has a swimming pool. For better value, try the Majestic (tel: 0102746), a smart Turkish-run hotel in a quiet part of the centre which has just been modernised and charges \$140 for a single.

Eating and drinking outdoors is a favourite local pastime and, as soon as the hot summer months arrive, "terrace" spring up all over town. One of the best is La Premiere (tel: 0124897), behind the Intercontinental, which serves local specialities, as well as international dishes, and is run by the convivial Dr Teodor Olteanu. Another is

Dotus (tel: 230717), a historic restaurant in a villa on Kiseleff, an elegant, tree-lined boulevard running north of Piața Victoriei where the central government is based. Both also have indoor restaurants for the bitterly cold Bucharest winters.

Credit cards are accepted at an increasing number of restaurants and shops as well as at most large hotels but the exchange from lei will be made at the official rate which, in late June, was about 30 per cent lower than the rate in the dollar offered in the many licensed local exchange bureaux. The dollar and the mark are the most widely-used foreign currencies.

The capital has several interesting museums, notably the Museum of the Romanian Peasant (Muzeul Țăranului Român), set up after 1989 in the former communist party museum and has a wonderful, well-displayed collection of vernacular art, ranging from a wooden church and carved stone crosses to traditional costumes, icons and hand-painted Easter eggs.

No trip to Bucharest is complete without a visit to the People's Palace or Casa Poporului, as it is known locally, the world's second largest building after the Pentagon. The palace, the construction of which consumed vast resources, epitomises the megalomania of deceased dictator Nicolae Ceausescu and is a chilling reminder of the suffering Romanians endured under his 25 year regime. Nevertheless, Casa Poporului is a modern wonder of the world and has to be seen to be believed. Tours can be arranged by appointment with the conference centre (tel: 01317760).

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■ Banks: by Tony Hawkins

## Front-line inflation fighters

Commercial banks are lending at a discount below bank rate and treasury bill market rate

In Ghana's high inflation economy, the banks are in the front line in the battle to bring down the inflation rate and stabilise the cedi.

During the reform period, the government managed to slow inflation from 123 per cent in 1983 to 10 per cent by 1991, but much of this hard-won ground has been given up over the past five years and, by the end of 1995, inflation was back to 71 per cent.

The money supply target was overshot in every one of the past six years, invariably by a huge margin, while only once during that period - in 1991 - did government meet, or better, its inflation target. With evidence to show that high inflation rates have undermined economic growth in Ghana and with recent IMF research in Ghana concluding that rapid monetary growth translates into increased inflation with a six-month time-lag before the full effect is felt, the government is relying on monetary restraint to rein in the price increases during 1996.

Accordingly, in terms of the plan agreed with the IMF, the authorities will try to bring down the rate of monetary growth from 37.5 per cent at the end of 1995 to 5 per cent by the end of this year.

That is going to be a tall order and, bankers believe, one that is unlikely to be realised, though the performance in the first half of the year seems likely to be close to the targeted 20 per cent. But getting from there to 5 per cent looks unduly optimistic given the nature of the Ghanaian financial system.

In Ghana's cash-driven economy, currency in circulation is the largest single component of the money supply accounting for 36 per cent of broad money (M2) followed by demand deposits which contribute just under a third. Monetary growth is highly seasonal, accelerating in the final quarter of the year with cash payments to cocoa farmers.

This year's forecast 26 per cent to 30 per cent increase in the cocoa crop and the higher cedi price received by growers, partly reflecting currency depreciation, will fuel strong currency expansion towards the end of 1996 when the authorities hope to bring monetary growth down to 5 per cent.

In the final quarter of 1995, currency in circulation grew 48 per cent from its 1994 levels and if this is repeated this year, the monetary target will be missed by a wide margin.

In the first quarter, money supply grew almost 40 per cent from March 1995 levels and donors welcomed the subsequent upward pressure on interest rates in the money market which nudged up to 43 per cent in mid-June. Further increases are likely as the authorities seek to mop up excess liquidity in the market and restrain monetary growth.

It is an unusual - if not bizarre - situation in which commercial banks lend at a discount below both bank rate (45 per cent) and the treasury bill market rate. The result is that some of the banks are engaging in more money market treasury operations, taking deposits from customers and recycling them into treasury bills, rather than lending to customers.

Prime lending rates are below 40 per cent, which as one banker says, means that every time he makes a loan he is taking a loss on the transaction. In reality, of course, the banks make up their difference from fee and trading income, especially in the foreign exchange market.

This raises all sorts of doubts about the efficacy of monetary policy as a tool for fine-tuning the Ghanaian economy. If banks lend below the market rate because they must meet the needs of important customers and secure access to foreign exchange, and if currency in circulation is the driving force in monetary expansion, then interest rate policy may well turn out to be a limp-wristed business.

On the other hand, because the market is dominated by the state-owned banks - with small lending portfolios relative to their deposit base and investment ratios - interest rate policy does influence the behaviour of the larger institutions.

According to the most recent survey of Ghana's banks, carried out by Price Waterhouse Associates, the country's largest bank, ranked by assets, the state-controlled Ghana Commercial Bank, had a loan-to-deposit ratio of only 11 per cent, compared with 25 per cent for Barclays Bank Ghana and 34 per cent for Standard Chartered Bank, ranked third and fourth respectively in the banking league table.

In terms of deposits the two state-owned banks have more than 40 per cent of the market (measured by the operations of

Ghana's leading banks (1994)			
Banks	Deposits (cedis bn)	Advances (cedis bn)	Profit after tax (cedis bn)
Ghana Commercial	250.4	28.6	33.3
Social Security	121.0	21.3	11.5
Barclays	128.3	30.6	4.9
Standard Chartered	114.6	27.2	8.6
Merchant Bank Ghana	55.7	29.3	5.5

Source: Price Waterhouse Ghana Banking Survey 1994 (November 1995)

the 12 leading banks), with Ghana Commercial Bank (GCB) holding a 29 per cent market share and Social Security Bank 13 per cent. Barclays, with almost 14 per cent and Standard Chartered with 13 per cent, are the other two leading institutions, giving four banks approximately 70 per cent of the deposit market.

With spreads - between deposit and lending rates - of 20 per cent and more, banking is a highly profitable business, especially where cautious lending policies are adopted. Here, the state-owned banks are at a disadvantage, partly because of a huge branch structure and high labour costs (in the case of Ghana Commercial Bank), but also because they have borne the brunt of "political" lending to state enterprise and other poor credit risks. In 1994, GCB's staff costs were two thirds of its operating expenses compared with less than 60 per cent for Barclays and 68 per cent for Standard Chartered.

Phase two of restructuring includes the sales of shares in state banks - 42 per cent of GCB has been sold and 30 per

cent of SSB - though the plan of selling a further 30 per cent in each case to a strategic (presumably foreign) bank to take over management is yet to be implemented. Another four banks are on the divestiture list.

Foreign banks are certainly interested in entering this profitable market - in recent years both Stanbic of South Africa and the Hong Kong Shanghai Banking group have arrived - though the attraction is dulled somewhat by the depreciation of the cedi.

Whether a foreign bank would want to take on a retail-type operation without full management control is another matter, and if Accra really wants foreign banks to take a stake in operations such as GCB, it may have to rethink its strategy.

GHANA COMMERCIAL BANK



Ghana Commercial Bank: the country's largest bank, ranked by assets

■ Industry: by Tony Hawkins

## Hard times for manufacturers

Inflation tops the list of problems, followed by a depreciating cedi and high interest rates

Industrialists, reflecting on six years of stagnation during which manufacturing's share in GDP declined from 10 per cent to some 7.5 per cent last year, are virtually unanimous about both the causes of decline and the solutions.

Inflation tops the list of problems, closely followed by its side-effects - a fast-depreciating cedi and high nominal interest rates.

Cadbury Ghana, which produces confectionery for the local market, bemoans the fact that more than 80 per cent of its inputs are imported. In an economy where real wages are falling and unemployment increasing, success depends on building market share, which Cadbury has managed to do very successfully. Cedi devaluation is helping by pricing direct imports out of the range of most consumers. But with widespread smuggling and evasion of customs duties and tariffs, effective protection is significantly lower in practice than in theory.

Unilever tells a similar story. It is less at risk from rising input prices - imports account for about a third of total costs - but its main competition comes from direct imports, and it, too, suffers from smuggling.

Unilever's experience says a great deal about the changing nature of the Ghanaian consumer market. Five years ago, between 60 per cent and 70 per cent of its sales were in urban areas; today that proportion has dropped to between 40 per cent and 50 per cent reflecting the recovery of the cocoa industry, the expansion of the mining and timber industries and the growth of self-employment in rural areas.

Unilever, which like Cadbury has bucked the trend in the manufacturing sector as a whole, attributes its strong performance also to building market share in a slow-growth consumer market.

Cost savings, productivity gains, a focus on quality and service, a sales effort thrust into the more prosperous rural areas and a measure of protection afforded by cedi devaluation have all contributed to this above-average performance.

Industrialists say that the established multinationals have fared better during this phase of de-industrialisation - measured by manufacturing's declining share in GDP - because they are less vulnera-

ble to the high cost of funds than Ghana's small and medium-scale industries. More important, perhaps they enjoy the benefits of brand loyalty of their offshore parents and of scale economies.

Claims that Ghana is being de-industrialised are rejected by donor agencies which argue that the country is simply undergoing the process of a structural change from a situation of over-protection and inward-focused industrialisation. They point, too, to the strong growth of small-scale enterprises in rural areas, whose output is not captured in the official statistics.

Whatever the past trend, it is clear that sustained economic growth and poverty reduction in Ghana depend on a strong manufacturing sector. The World Bank's medium-term projections assume that de-industrialisation will be reversed in the second half of the decade during which period manufacturing industry will keep pace with GDP growth of around 5.5 per cent annually. But according to the Accra-based Institute of Economic Affairs (IEA), this will happen only if Ghanaian industry can become internationally competitive so that it can build sales in export markets while fighting off competition from imports at home.

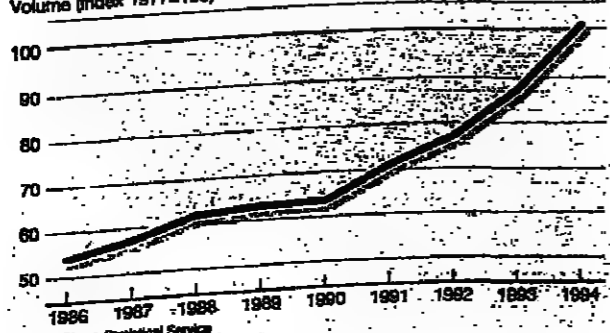
This sensible conclusion sits uncomfortably with official enthusiasm for micro and small-scale industries, which are unlikely to become competitive in export markets where style, quality and technology count more than production costs. Not only that, but all agree that manufacturing development in Ghana is constrained by infrastructural deficiencies and the scarcity of technical and managerial skills. The fact that the multinationals are finding it easier to survive and prosper in the post-reform era underscores the implausibility of small enterprise-driven industrial growth.

Finance is a serious constraint, too - and not just for the small operators. Nominal interest rates of 40 per cent and above are an important deterrent to investment and expansion, even for those able to access the funds. Many - indeed most - smaller businesses are shut out of the market altogether.

"The reality," says Dr Justice Addison, president of the Association of Ghana Industries, "is that banks find lending to the government (by buying treasury bills) almost risk-free, with good returns compared to a riskier private sector."

### Industrial production

Volume (Index 1977=100)



Source: Ghana Statistical Service



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## 4 GHANA

■ Gold: by Michael Holman

# Predator may be stalking Ashanti

These are exciting times for the industry that is the largest foreign exchange earner

Ghana's gold boom continues apace. The sector's flagship company is thriving, but a foreign predator may be prowling. Barely two years after Ashanti Goldfields helped blaze the African privatisation trail in one of the largest and most successful state divestitures the continent has seen, speculation is rife that South Africa's Anglo American Corporation is stalking the company.

The combination of a spate of acquisitions by an Ashanti management determined to resist, coupled with the fact that the Ghana government still holds a 30 per cent stake as well as a "golden share" makes the company a formidable target.

Whatever the outcome, it all

makes for exciting times in the industry that has supplanted cocoa as the country's largest foreign exchange earner.

Gold exports earned \$847m last year, representing around 40 per cent of total foreign exchange earnings. Production is set to reach 1.7m ounces in 1996 and the sector is capable of doubling that output by early next century.

Investors from as far afield as Australia, Canada, Britain, and South Africa are taking part in the search for the mineral that was at the heart of commercial interest in the region a century ago.

The rise and fall and subsequent revival of the gold mining in Ghana reflects the fortunes of the country as a whole.

In 1960, just three years after independence, the country's gold production was 913,000 ounces.

By 1983, when Ghana was reeling under the consequences of failed socialist poli-

cies of founding president Kwame Nkrumah and a succession of military coups, output had fallen to 261,000 ounces.

Recovery owes much to the Rawlings government decision in 1983 to implement a reform programme based on market-determined exchange rates and a supportive climate for the private sector.

Today, nine large-scale companies, including Goldfields Ghana, a subsidiary of Goldfields of South Africa, are taking advantage of one of Africa's most attractive investment climates.

The company's Tarkwa mine raised production to 220,000 ounces, but development is likely to concentrate on open-cast mining of reserves thought to exceed 7m ounces elsewhere on the Tarkwa concession.

A further 50 companies have mining leases, and another 180 own prospecting licenses, while 565 small-scale licensed

mining operations make their own contribution to the gold boom - 90,000 ounces last year.

But far ahead of the field is Ashanti Goldfields, the Ghanaian-led mining house which accounts for the bulk of the country's production and which went public in 1994.

Although costs have been rising, at \$208 an ounce, Ashanti remains among the lowest-cost one third of world gold mines.

Ashanti's operations are centred on deposits close to Obuasi, where its total ore reserves and open-pit resources exceed 20m ounces, but estimates suggest they could be nearer 50m ounces, one of the largest in the world.

The company's gold production and reserves could well double in the next five years, say analysts, which would make Ashanti one of the world's top five producers.

In April 1994 Ashanti was listed on the London and Ghana exchanges, with the government of Ghana selling 30 per cent of its 55 per cent interest for \$45m.

Earlier this year Ashanti became the first indigenous African company to be fully listed on the New York stock exchange, and was also recently listed on the Toronto exchange.

It has proved a landmark for a company founded 100 years ago, run down in the 1970s, and revived under the leadership of a former shift boss, Sam Jonah, now chief executive.

Production has soared from 240,000 ounces in 1986 to just

over 920,000 ounces last year.

With investment running at \$140m this year alone, the company is continuing to expand, rehabilitate, and modernise programmes at home as well as press ahead with the search for new assets abroad, though not without experiencing some setbacks.

While production at the company's mine at Obuasi has risen at a compound annual rate of 15 per cent since 1985, the target of 1m ounces from the mine in 1995 proved optimistic.

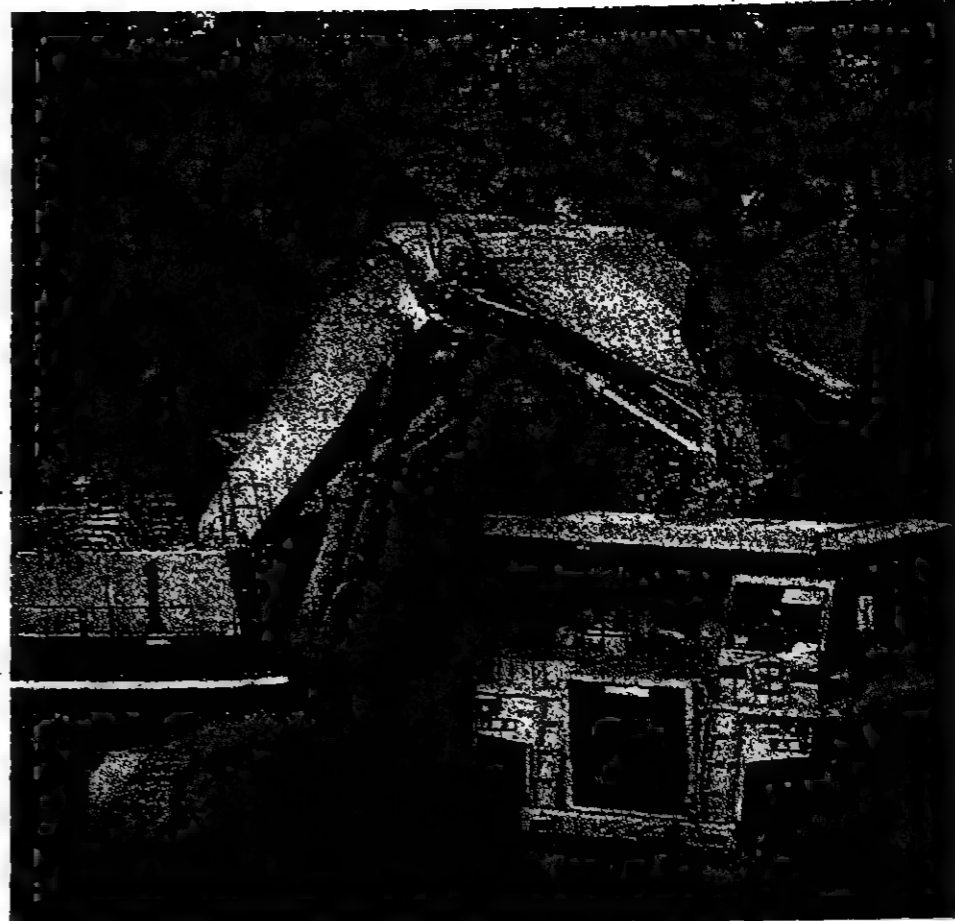
Technical difficulties and the severe drought early in 1995 limited production, and output at Obuasi is set to stay constant at around 900,000 ounces, say company officials.

But disappointment at failing to reach the 1m target was compensated by developments on other fronts - notably purchases which are turning Ashanti into a leading operator on the continent as a whole.

But Ashanti's rapid expansion is also seen by analysts as a defensive tactic against a possible takeover by Anglo American Corporation of South Africa.

Anglo got its foot in the door when it acquired 6 per cent of Ashanti, which owns 37 per cent of Ashanti, from Dieter Bock, Lombe's chief executive, who says he plans to damage the group's mining interests. Anglo also has the first right of refusal on Mr Bock's remaining 18 per cent of Lombe.

The acquisition spree began at the start of this year, when Ashanti announced that its



Ashanti's gold production and reserves could well double in the next five years

offer for Cluff Resources had been unconditionally accepted.

Cluff has a 75 per cent interest in the Ayanburi mine 50km south-west of Obuasi, with a forecast production of 40,000 ounces in 1996. Further licences in northern Ghana cover 900 sq km of the Njodji gold belt.

Cluff also manages the Freda Rebecca mine through the 79.5 per cent owned Cluff Zim-

babwe, expected to produce 90,000 ounces in 1996.

But potentially the most rewarding asset could be Cluff's 30 per cent interest in the 230 sq km Getta area on the southern shores of Lake Victoria. Recent exploration has already identified reserves estimated at 405,000 ounces on one site. This is only a small proportion of what awaits discovery.

The Cluff deal was closely followed by a \$100m agreed offer for International Gold Resources of Toronto, whose main asset is the right to a 45 per cent operating interest in the proposed Ribiani gold mine in Ghana.

This is expected to start up within two years, producing 260,000 ounces annually at a production cost of around \$180 an ounce.

The third acquisition was an agreed \$200m share exchange offer for Australia's Golden Shamrock Mines, which has a 70 per cent interest in the idyllic open-pit mine near Tarkwa, Ghana, producing between 120,000 and 150,000 ounces a year, and a 70 per cent stake in the Siguiri open-pit gold project in Guinea, with an option to increase this to 85 per cent.

Cluff and other interests will allow the enlarged Ashanti group to come close to the 1.5m-ounce mark by 2001, says

James Anaman, Ashanti's corporate affairs manager.

The attitude of the Ghana government would be an important issue should Anglo pursue a takeover bid. The government not only retains a substantial shareholding - just over 20 per cent, having reduced its stake by 5 per cent earlier this year - but also has a "golden share" to block an unwelcome predator.

The wholly-owned subsidiary, Ashanti Exploration Ltd (AEL), continues to explore properties in Guinea, Mali, Niger and Zimbabwe, with applications pending in Eritrea, Ethiopia, Sudan and Tanzania.

Ashanti is also a partner with JCI of South Africa in Mali, and IAMGOLD, via a subsidiary called AGEM Ltd, which started the Sadiola mine in Mali in conjunction with Anglo American.

"Looking forward five years," says Sam Jonah, "we want this company to be the truly authentic, African multinational corporation, using its experience to assist as partners in the active development of the gold mining industry in Africa."

"In future there will be a handful of international mining companies operating worldwide and Ashanti will be one of them. We will be the leading player in Africa."

■ Privatisation: by Tony Hawkins

## Accelerated sell-offs

As well as bringing in revenue, privatisation has reduced the burden on the tax payer

Ghana's bloated state enterprise sector contributed substantially to the country's economic decline. Ten years ago, there were some 347 state-owned enterprises (SOEs), dominating the manufacturing, financial, mining and agricultural marketing sectors and employing 350,000 people (61 per cent of the formal sector workforce).

Average capacity in utilisation in state-owned industries was 18 per cent - about half the national average - and loans to parastatals accounted for approximately 50 per cent of the non-performing assets of the banks. As recently as 1994, the SOEs owed \$1.5bn to domestic lenders, three quarters of this being the domestic debts of leading utilities - the Volta River Authority, Ghana Telecom, Ghana Ports and Harbours Authority, the Volta Lake Transport Co and the Electricity Corp of Ghana.

Ghana's privatisation programme, formally launched in 1988, has only recently gathered momentum. Indeed, in the first five years of the programme (1989-1993), privatisation proceeds were worth a mere \$4m cedis, but with the sale of 30 per cent of the government's stake in Ashanti Goldfields in 1994, which brought in \$750m cedis (\$316 m), receipts by the end of that year totalled \$11bn cedis (\$485m).

Much of the early divestiture activity took the form of liquidations (64 per cent of the total

in 1990), but by 1994 this ratio had fallen to 20 per cent while outright sales accounted for half of the SOEs divested - the remainder being joint ventures, lease agreements and the sale of shares.

By the end of last year, 196 of the 347 SOEs had been processed. Seventy-nine of the sales had been completed while 31 had been taken over by private owners and partly paid for and 86 were still awaiting final purchase agreements. Foreign buyers were involved in about half of the transactions.

It has been a painful process for some, with an estimated

**Ghana's privatisation programme has only recently gathered pace**

40,000 parastatal workers being laid off during the initial (1989-93) period, reflecting the large number of liquidations. However, in the past two years as sell-offs replaced liquidations, there were only 5,000 redundancies.

As well as bringing in revenue, privatisation has reduced the burden on the tax payer with subsidies and net lending to parastatals declining to 13 per cent of current government spending last year from 18 per cent in 1990. There are numerous reports, too, of improved performance such as that by the Ghana Metals Co, which after being privatised cut its work force to 48 from 126 while more than doubling output to 1,200 tonnes a year from 500 tonnes previously.

The banking sector has been

rationalised with the sale of shares in the country's largest bank, Ghana Commercial Bank, and the State Security Bank (SSB). The strategy was to sell 30 per cent of the shares to private investors via the Accra stock market, and finding a strategic investor for another 30 per cent leaving the government with a maximum of 40 per cent of the equity. The SSB sell-off 15 months ago was less than successful with buyers being found for only 21 per cent of the 30 per cent offered through the market.

The Ghana Commercial Bank issue was much more successful and the government has sold 42 per cent of its stake, but no strategic investor has yet been found for either bank, which is hardly surprising since a foreign bank would almost certainly want clear control of the business.

Approximately 150 enterprises remain to be sold and the government recently signalled its intention of accelerating the process with the outsourcing of the divestment process for seven enterprises to private sector consultants and agencies. Contracts are currently being drawn up for another eight SOEs to be handled in a similar fashion.

The World Bank has provided a \$70m private sector adjustment credit to fund the privatisation of a further 114 enterprises, including four important strategic operations and 46 medium-sized businesses. The ones likely to attract greatest attention are Ghana Telecom, due to be divested by the end of this year, and the Min Timber Co. There is likely to be much less interest in the State Housing Corporation and the State Insurance Corporation.



The scene at the New York Stock Exchange when Ashanti was listed earlier this year

■ Stock Exchange: by Tony Hawkins

## Sparkle starts to fade

The market continues to lag both inflation and the devaluation of the cedi

After two sparkling years in which share prices rose 116 per cent in 1993 and 124 per cent the following year, Ghana's fledgling stock market has run out of steam.

Last year, the GSE All-Share index rose only 6 per cent taking market capitalisation to 2,400m cedis (\$1.8m), but trading volumes declined sharply, falling 40 per cent to 58m shares.

Domestic buyers were deterred by the combination of rapid inflation and sharply higher returns available in the money market.

In the first half of the year, too, many investors were attracted by the promise of 30 per cent monthly interest from the so-called "Wonder Banks" - non-bank financial institutions.

Predictably, these operations were short-lived and their activities ceased in mid-1995. Foreign investors stayed out of the market, too, partly because the international institutions were looking for much larger parcels of shares than were available in Accra's highly illiquid market, but also because cedi depreciation undermined hard currency returns.

Since its inception at the end of 1990, the GSE has attracted 20 listings, of which Ashanti Goldfields (AGC) is far and away the star performer. AGC's market capitalisation on the GSE in mid-June was just below 2,800m cedis or 87 per cent of the entire Ghanaian stock market.

The second largest company is Ghana Commercial Bank (GCB), capitalised at 110m cedis or 3.4 per cent of the total, followed by Standard Chartered Bank with 81m cedis (2.5 per cent), Social Security Bank and Unilever Ghana account for a further 112m cedis (3.6

per cent), leaving the rest of the market, comprising 15 listings, to make up the balance of around 3.5 per cent of the total.

The exchange has caught the public imagination, with the 23,000 Ghanaian investors participating in the Ashanti privatisation, and 25,000 buying shares in Social Security Bank. In the most recent sell-off, more than 70,000 individual investors bought shares in the GCB issue which was 38 per cent oversubscribed.

There has been relatively little buying by domestic institutions other than the state-owned Social Security and National Insurance Trust which is by far the largest local operator in the domestic money and capital markets. Foreign institutions, which own a substantial share of Ashanti - one estimate is that at least three quarters of Ashanti is owned offshore with most of the 25 per cent or so held in Ghana, being the government's stake - have been

active in the past, especially in 1994 period when dollar returns on the GSE exceeded 70 per cent.

The foreigners are looking for substantial parcels of shares which tends to mean participation in new issues and especially privatisation offerings. The Ghana Telecom offer, expected by the end of the year, is likely to attract significant foreign buying, depending on who gets the nod as strategic partner and how much of the offer is targeted at offshore buyers.

In the meantime, the market continues to lag both inflation and the devaluation of the cedi, with the index gaining only 14 per cent in the first half of the year against estimated inflation since December of around 20 per cent and a 12 per cent currency depreciation. A combination of new offerings, and lower inflation and interest rates is needed for the market to regain some of its 1994 momentum.

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■ Cocoa: by Michela Wrong

## Bumper bean crop expected

Ghana's cocoa continues to enjoy a reputation as the best in the world

If the free market economy is premised on the belief that the best way of ensuring future efficiency is to reward good performance, the maxim appears in danger of being ignored when it comes to Ghana's cocoa industry.

This crucial national sector, which shrank by 60 per cent between the early 1980s and mid-1980s as a result of poor producer prices, high taxes, drought and bush fires, is now looking better than it has for decades.

Output last year was 309,000 tonnes, the highest for 20 years, and the government is predicting a bumper crop of just under 400,000 this year. Coming second only to gold in terms of foreign exchange earnings, the sector earned Ghana \$450m in 1995.

Producer prices were last month raised to 1.2m cedis (710 dollars) per tonne, ensuring farmers who once received 15 per cent of the world price now get 51 per cent. Cocobod, the once overstaffed government board, is now a lean institution run by a fraction of its original employees. Ghana's beans continue to enjoy their reputation as the best in the world. Despite such achievements, the Bretton Woods institutions overseeing the country's structural adjustment programme are pressing hard for further reform in the face of strong resistance from a government understandably sensitive to any measure affecting a sector on which a quarter of the population depends.

The irony is that the government and industry experts are not the only people arguing that the premium fetched by Ghana's cocoa beans on the world market may well justify retaining the controversial status quo.

A group of independent consultants asked by the World Bank to weigh up the pros and cons of changing the current system, under which internal marketing has been liberalised but external marketing remains in Cocobod's control,



A checking system ensures that cocoa being sold to the international market retains its quality

recently concluded that the existing monopoly should be retained.

The British consultancy's preliminary findings were bluntly rejected by the World Bank, which sent them away to think again. An International Monetary Fund (IMF) internal document, while insisting that the Ghanaian government had "indicated its desire to remove the Cocoa Board's monopoly", concludes: "the government has asked the consultants to undertake a more in-depth analysis of the issues involved."

An interview with Dr K.J. Adjei-Maafa, head of Ghana's Cocoa Policy Unit, paints a slightly different picture. "An independent group is telling us that the system we have now is the best and the World Bank is refusing to accept it. If you pay for a job to be done and then say you won't accept it because it doesn't go in your direction, it's not fair," says Dr Adjei-Maafa.

The government's reluctance to privatise external market-

ing, despite World Bank prodding, is based largely on the problems that have accompanied the liberalisation of internal marketing. Since 1992, private buyers have been licensed to purchase beans from farmers, once Cocobod's exclusive right, and 19 buying companies now handle a quarter of the crop.

The result, says Joe Atieno, Cocobod's chief executive, has been a noticeable drop in quality. With a bevy of rival buyers competing for produce, farmers are under pressure to sell quickly and some beans are being transported before they have been properly fermented, then stored in substandard warehouses.

"With some buyers offering cash, stealing cocoa also becomes profitable. The farmer now has a security problem and to limit the risk he may try to transport cocoa before it is ready," says Mr Atieno.

He says Cocobod's quality checking system means low quality beans are being caught before export and processed

locally, ensuring cocoa being sold to the international market retains its quality. "The buying companies are on a learning curve and as a proportion of the crop the problem is insignificant. But if we grow complacent it could get out of hand."

The next few years are likely to see a winnowing out, with several buying companies deemed to have behaved irresponsibly expected to lose their licences.

But the problems remain significant enough to warrant a pause for thought before plunging headlong into further liberalisation, argues the head of the Cocoa Policy Unit. He cites the fall in standards experienced in other African cocoa-producing countries which have swallowed the World Bank medicine - such as Benin, Nigeria and Cameroon - as lessons Ghana, so much more dependent on cocoa in terms of revenue, needs to learn from.

"At the moment we are containing the problem internally,

but that doesn't eliminate it. The World Bank should give us a breathing space to work out those problems before we tackle external marketing. We just need a bit more time," says Dr Adjei-Maafa.

Although according to the IMF the government is meant to deliver its judgment on cocoa sector reform by end-September, there is another good reason to stall.

In the forthcoming elections, President Rawlings is expected to score far higher in rural areas, whose voters he has wooed over the years with fertilisers, pesticides, electricity and feeder roads, than in the opposition-dominated cities. Any changes that would alarm the farming community risks seriously damaging his electoral prospects.

"As a government we have concentrated on rural areas and that is what is going to bring us back to power," acknowledges Dr Adjei-Maafa. "If I implement measures unpopular with the farmers, I lose votes for the president."

■ Tourism: by Michael Holman

## Painful past recalled

The Slave Route project is at the heart of efforts to promote Ghana as a tourist destination

Ghana is turning its painful past to advantage as it prepares to promote tourism.

Castles built between the 15th and 18th centuries by the colonising powers, and which served as embarkation points for the slave trade, have become the focal points in a pilgrimage in which African Americans are tracing the route their forefathers followed.

More than 50 weather-beaten castles built by the Portuguese, Dutch, Danes, Germans, Swedes and British dot the country's coastline, and three have been designated by Unesco as World Heritage sites - St George's Castle and St Jago Fort at Elmina, and Cape Coast Castle at Cape Coast.

The Slave Route project, as it is known, initiated by the World Tourism Organisation (WTO), is at the heart of Ghana's efforts to promote the country as a tourist destination.

Already the sector is proving an important source of foreign exchange.

Tourist arrivals have risen from 85,000 in 1985 to 271,000 in 1994, bringing in \$222m according to the study.

An estimated 985,000 came to Ghana last year, but many of these visitors, however, are Ghanaians resident abroad, who on arrival stay with friends and family, and thus contribute comparatively little to the spin-off businesses that help generate revenue - souvenirs, local handicrafts, and the restaurant and hotel trade.

The industry target is 400,000 for 2000, and 1m in 2010, generating net foreign exchange earnings of \$1.25bn in 2010 - a highly optimistic figure given the current state of the sector.

The country has a long way to go before tourism takes off, as a 400-page study prepared with the assistance of the WTO and United Nations Development Programme makes clear.

"The central region that has the major developed attractions of Cape Coast and Elmina Castles and Kakum National

Park, has only about 500 rooms, with no hotels of three star or above, and most rooms in the 1-star or budget categories," comments the study.

In the country as a whole, only about 750 rooms - 8 per cent of the total - are in the three-star and above category, and nearly all of those are in the capital Accra.

Half the total rooms available are not considered suitable for international tourists.

Yet, with appropriate investment and management, Ghana could make more of what it has to offer. As well as the castles dotted along the coastline, the country boasts some fine beaches, several game parks, a low crime rate and a tradition of hospitality to visitors.

But the poor infrastructure needs to be radically improved if the country is to meet the standards expected by international travellers.

The Mole National Park, for example, the largest of the national parks, covers nearly 5,000 square kilometres of rolling savanna and rivers and streams, with elephants, bu-

falo, several species of buck, lion, and leopard within its boundary.

But the lodge needs upgrading, as do the viewing tracks, and only a few thousand visitors a year make the journey.

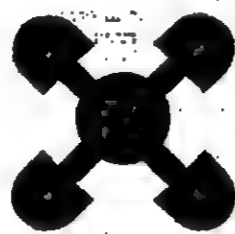
More could also be made of the huge Volta Lake, with only one comfortable hotel on its shores - at Akosombo - while consultants have also recommended a variety of ways of attracting visitors.

These ideas range from providing comfortable carriages on the railway from Accra to Takoradi and Kumasi, which takes in a scenic stretch of the country, to deep sea fishing and cruises on Lake Volta, as well as cultivating niche markets, such as bird-watching expeditions.

The requirement that visas be obtained before arrival is a deterrent for would-be tourists, notes the report, adding that a further disincentive to would-be visitors is the fact that the cost of staying in the leading hotels in Accra "is also relatively high when compared to the quality level of facilities and services provided".



The beaches are often enticing in appearance



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The Council's goal is to ensure that the national export diversification and promotion drive succeeds. In pursuance of this goal, the council engages in an extensive scope of activities. These include:

- ◆ development of national export awareness
- ◆ identification of products with export potential and locating markets for them;
- ◆ creating goodwill for Ghanaian products through overseas and local trade fairs and exhibitions;
- ◆ providing exporters with the necessary assistance for penetrating the competitive international market;
- ◆ organising market missions to enable Ghanaian exporters meet prospective overseas buyers;
- ◆ assisting businessmen travelling abroad with information on target markets;
- ◆ providing advice on export marketing to exporters;
- ◆ training exporters and personnel of export facilitating institutions to upgrade their skills in export marketing;
- ◆ recommending to Government the necessary assistance and incentives needed by the Ghanaian exporter.

Foreign businessmen find the council a very reliable source of business information on Ghana

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## 6 GHANA

■ Politics: by Michela Wrong

## Rawlings faces tougher test

The hot-tempered president confronts an opposition still seeking unity in the elections

Six months after the event, Ghanaians are still talking about it: the infamous cabinet meeting at which President Jerry Rawlings manhandled his vice-president, knocking him to the ground and - according to the latter's account - kicking him as he lay squirming, merely confirmed what most people already knew: that after 15 years at the helm their leader is still inclined to resort to unconventional methods when faced with dissent.

But the hot-tempered Mr Rawlings, who twice seized power at the barrel of a gun before ushering in multiparty democracy, will be under pressure to play by the rules in December. That is when Ghanaians once again go to the polls in what most observers agree will be a far tougher test for the president and his National Democratic Congress (NDC) than the 1992 elections.

Conveniently for the government, those polls were boycotted by the opposition, which claimed the electoral register

had been tampered with, thereby handing the NDC control of the 200-seat parliament. This time the playing field will be a little more level.

A new electoral register has been drawn up and donor funds made available for transparent ballot boxes, indelible ink and monitors. With five private radio stations now licensed and a bevy of anti-government newspapers in circulation, the opposition no longer complains about media access.

In addition, an already dangerously high inflation rate means the government can ill afford a repeat of the run-up to the last elections, when it granted the public sector large pay increases and awarded a spate of construction contracts, winning votes but sabotaging the economic recovery.

All this comes at a time in their history when Mr Rawlings is looking his weakest.

The once-untouchable NDC is riven by dissent. Seventy-five MPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation".

The clumsy handling of a drugs scandal at the Ghanaian embassy in Geneva and revelations of corruption among top officials have also tainted the government's

image. But most damaging is the growing exasperation of a swathe of voters - city dwellers, businessmen and students - at the failure to achieve prosperity after 13 years of structural adjustment.

This section of the population, hard hit by unemployment and rising prices, blames Mr Rawlings for failing to create the much-promised "enabling environment" for the private sector, claiming he has favoured party supporters while harassing political foes.

Since the president's remarkable conversion from leftist revolutionary to market-driven reformer always appeared somewhat half-hearted, they argue, he never succeeded in convincing Ghanaians scared by the past it was now safe to invest at home.

"Rawlings has worn out his welcome in a lot of places," says a diplomat. "His mish-mash of revolutionary ethics and IMF prescriptions has taken its toll on the country and many feel it now needs to be brought to an end."

Yet most analysts believe the president is still likely to win, albeit with the prospect of a much-reduced parliamentary majority for the NDC, thanks to that traditional African stumbling block: a divided opposition.

The two main opposition parties - the New Patriotic Party (NPP) and the Peoples Convention Party (PCP) - are still debating how to avoid splitting the anti-government vote by presenting a single presidential candidate and joint candidates in the constituencies.

"If my party and the PCP agree to team up, a substantial chunk of opposition forces will have united," says John Kufour, the lawyer-turned-businessman who has replaced Professor Adu Boahen at the helm of the NPP.

Admittedly, ideological roots stand in the way of such an alliance. The PCP is a grouping of quasi-socialist movements drawing inspiration from Kwame Nkrumah, Ghana's first president. The NPP, their long-time political rivals, belong to the right-wing Bush-Danquahist tradition.

While such distinctions matter to the participants, the widely-accepted need to continue structural adjustment has emptied them of content. In any case, past quarrels have little meaning for the electorate, 70 per cent of whom are under the age of 50.

The real problem is one of party ego. Both the PCP's candidate, vice-president Kow Arkaah, and Mr Kufour insist they are ready to take the



Kow Arkaah: vice-president challenging Rawlings



John Kufour: a businessman turned politician

number two slot on the opposition ticket. But as the talks continue, it is becoming increasingly clear both parties want the top slot.

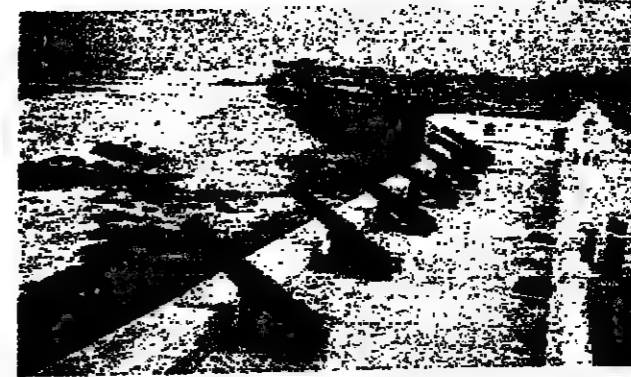
NPP supporters argue that their movement is larger, better organised and the gravely-voiced Mr Kufour a far more impressive speaker. The PCP say Mr Arkaah, whose refusal to resign after his scuffle with the president won him enormous publicity, enjoys brand-recognition across Ghana and that - a minor sex scandal notwithstanding - his age and position as upholder of the Nkrumahist tradition win him automatic respect.

In addition, the courts are due to review a controversial legal ruling barring Kwame Pianim, a popular economist, from standing, risking a further muddying of the waters

by producing a third possible candidate.

Kofi Totobi Quakyi, the information minister, acknowledges that this time around the government has a fight on its hands. But he argues that the base of government support lies in the countryside, where better returns to cocoa farmers, the expansion of the mining sector and the growth of the timber industry have improved living standards.

Opposition tactics may determine whether that base is enough to give Mr Rawlings another four years in power. "If - and it's a big if - we can form an alliance we can give the government a run for its money," says Mr Pianim. "So far the government has been losing the election. The opposition has not yet started to win it."



Fortress Elmina, where slaves were once kept

## Business guide

Stroll at dusk across the lush lawns spilling out from the Cocoa Research Institute clubhouse, a throwback to the days of the British Empire, and you are immediately reminded of the melodic sounds of the African night: crickets, cicadas, frogs, and the crawling of crabs as they settle for the evening.

The institute is a two-hour drive from Accra, on a route that winds its way up the escarpment through a series of cheerful villages, past the Aburi Botanical Gardens - planted in the 19th century - to culminate in the cool highlands of Tafo.

Like many tourist facilities in Ghana, the dilapidated guest houses, once the homes of British cocoa experts, fall well short of international standards, but the tranquillity offered by this former enclave of colonial scientific excellence is appreciated by weekend visitors fleeing the rigours of steamy Accra.

Escaping the capital - whether it involves driving to Tafo, the 15th century slave-trading forts dotted along the palm-fringed coast, the hotel overlooking the Akosombo dam, or the Kakum National Park - has become a priority since Ghana's economic recovery brought with it the combined disadvantages of congested streets and overbooked hotels. The city's infrastructure is visibly straining at the seams and working here is no longer as pleasant as it once was.

Time spent in traffic jams - allow more than half an hour between appointments if you have to travel across town - can be put to good use by renting a mobile phone from Mobitel (telephone 027 5510 00), although the facility is expensive. As in so many African countries, it is often easier to ring abroad than locally, but you pay through the nose for the privilege.

Hotels are best booked in advance as there is a marked shortage of top-class accommodation. Although President Rawlings recently reminded delegates attending an international investment conference that 15 years ago they would have had trouble finding rooms, telephones or even water for their baths, there are still only 650 rooms that fall into the three to five-star category.

Several hotels are being built or renovated, but the current dearth of competition means prices are high - as much as \$250 a night.

If Accra has its hazards, violent crime - scourge of so many African capitals - is not one of them. Ghanaians are rightly proud of the fact that their capital remains a safe city to stroll around in, even at night.

Apart from the usual tropical vaccinations, travellers are advised to start a course of anti-malaria pills before they arrive. They may get conflicting advice from doctors over which type of medication is currently considered most effective against the

increasingly quinine-resistant strain of malaria found here.

The beaches, often enticing in appearance, pose another risk. The waters off these shores are deep and prone to strong currents. Drownings are all too frequent and it is probably wisest to swim when other people are nearby and remain within one's depth.

Visitors should come well-equipped with calling cards and a wardrobe appropriate to a climate that is unrelentingly hot and humid. Credit cards are accepted at the top hotels, but many restaurants and car hire agencies prefer to be paid in cash. Cars can be rented by the hour for 9,000 cedis and by the day for \$55 or over.

Most visitors will need a visa before they arrive although there is no longer necessary to declare foreign currency at Kotoka International Airport. There is a \$20 airport tax on departure. The trip from the airport to the city centre costs about 6,000 cedis.

A useful brief guide to operating in Ghana, *Living in Ghana - Some Impressions*, is available from the British High Commission's aid section. Databank, a company which includes members of the Ghana Stock Exchange, provides useful country and company analyses. They can be contacted on 669110, fax 669100.

Useful telephone numbers: (International code 233 Accra code 21) Diplomatic missions: UK 221685, US 775347/9, Japan 775615, Germany 221311. Hotels: Novotel 667546, fax 667533; Golden Tulip 775360, fax 775361; Labadi Beach 775501, fax 775590 (on the coast road, a little way out of town); Shagari-La 777620, fax 774573.

Restaurants: African - Country Kitchen 229187; Lebanese - New Club 400 223723; Indian - Haveli 774714; Chinese - Hingons 773763; Dynasty 775496; French - Le Bouquet 774117; Italian - Bella Napoli 773388. Others: The Ritz 220917, Chez Marie Lou 774681. Airlines: British Airways 664856, Air Afrique 777414, Alitalia 220758, Ghana Airways 773321/773341, KLM 224020/224050, Swissair 665336/665379. Banks: Barclays 664901/664941, Ghana Commercial Bank 664911/5, Standard Chartered 663950/664931.

Car Hire: Hertz 776171/244590, Avis 227744, Honeys Rentals 667548.

Advice and Information: Finance Ministry 665182/665587; Bank of Ghana 666902; Divestiture Implementation Committee 772049/773119; Stock Exchange 669005/669014/669336.

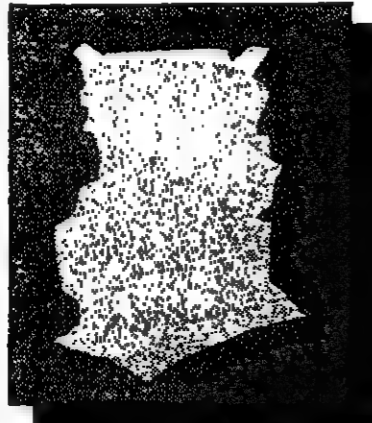
Ghana Investment Promotion Centre 665125-4, fax 663301; Minerals Commission 772758/772786.

Ghana Tourist Board 774688/665421; Centre for Policy Analysis 778035.

Institute of Economic Affairs 776541, fax 776724.

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## GHANA TOURIST BOARD



## TREASURES OF GHANA'S CENTRAL REGION



HISTORIC FORTS AND CASTLES



GRAND TRADITIONAL CULTURE AND FESTIVALS



UNIQUE RAIN FOREST



TRADITIONAL MILITARY SHRINE

## COME TO GHANA'S GOLD COAST

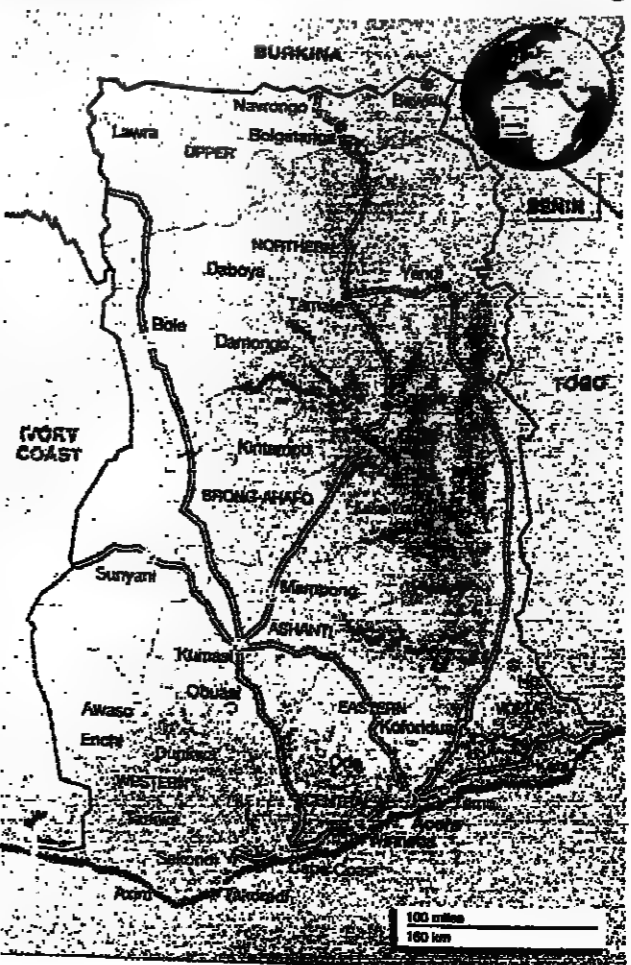
Ghana, situated between the Côte d'Ivoire and Togo on the West Coast of Africa, is one of the Continent's most beautiful countries. From its picturesque coastal location to its wide range of attractions and amenities, Ghana appeals to a diverse group of travellers. For those seeking a rich and vibrant culture, sun-drenched beaches with pristine swimming, ancient European castles, lush tropical

forests, colourful festivals celebrating the diversity, mouth-watering seafood and Africa's friendliest people, Ghana is a wonderful find. The exuberant Ghanaian hospitality - expressed heartily in the traditional greeting "akwaaba" or "welcome" - will warm you. You will feel at home in Ghana, the land of legends, while discovering its unparalleled traditions and beauty.

For detailed information, travel brochures, maps, hotel lists and suggestions for tour itineraries, events and sightseeing for groups and individuals please contact:

Ghana Tourist Board Head Office

P.O. Box 3106, Tesano, Accra Tel: (233) (21) 665441 • Fax: (233) (21) 662375



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**FT MANAGED FUNDS SERVICE**

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<b>- OFFSHORE</b>	US & Swiss Services .....	\$6,183.2	0.1790	---
	US & French Inland .....	\$0.1457	0.1687	---
	US & Spanish .....	\$0.1396	0.1471	---
	US & Pacific Mktg .....	\$0.1691	0.1730	---
	Hong Kong .....	\$0.3730	0.4020	---
<b>- INSURANCES</b>	International Bond .....	\$0.1543	0.1687	---
	US & British Mktg .....	\$0.1101	0.1390	---
	Latin American Financ .....	\$3.1721	0.1390	---

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**FT MANAGED FUNDS SERVICE**

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

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## LONDON STOCK EXCHANGE

## MARKET REPORT

## Footsie holds steady despite Wall Street jitters

By Peter John

With equity gale warnings from over the Atlantic still threatening, London's dealers sailed into yesterday's session on a remarkably even keel.

Friday's late 11-point fall on Wall Street prompted a brief flurry of nervousness which saw the FT-SE 100 index marked down nearly 20 points at the start of trading.

But the reaction was cushioned by a number of short positions in the UK and the Footsie rallied throughout the morning. The principal rationale for a calmer outlook was the latest set of UK economic data, which pointed to a more sub-

dued outlook for inflation, thus dampening concern that the next move in interest rates could be up.

The data showed that output in May was above some expectations but, more significantly, output prices in June were below most economists' forecasts.

Also, the latest Merrill Lynch-Gallup Survey showed that UK fund managers, while net sellers in the short term, are becoming more optimistic on the outlook for UK equities on a one-year view.

Thirdly, hopes of corporate activity were built into the market. Traders latched on to a leaked report discussing the prospect of merging the Guinness and Grand

Metropolitan drinks divisions.

That combination of relief and support saw the Footsie gain almost 9 points by mid morning, with the help of a more positive attitude in the futures market. The contract on the Footsie which expires in September moved back in line with its estimated fair value. It had been trading at a sharp discount.

"Friday's situation on Wall Street has happened before and everyone is very wary about reacting too fast," commented one senior trader. "It is all very technical, and the real key is whether inflation is getting out of hand."

However, another dealer, who arbitrages between the US and UK,

feels that past market rebounds following strong US job numbers might have lulled traders into a false sense of security.

"We are still short on balance and it will be some time before the position is corrected. But I would be very surprised if we didn't see Wall Street down below 5,450 soon, and when that happens I think we are really going to struggle," he said.

For a pointer to inflation, the market has to wait until Friday when provisional US consumer price data for June are published. The figures are expected to be the focus of the week as there is little happening in terms of UK corporate results or economic data.

That lack of potentially meaty information ensured that, in spite of its apparent insouciance at the start of trading, the Footsie watched Wall Street nervously. It lost its mid-morning gain ahead of the US opening and then traded back up again after the Dow opened stronger, and ended the day only 1.7 lower at 3,741.5.

On the other hand, the FT-SE Mid 250 index, which had avoided Friday's sharp falls, reacted belatedly with a slide of 21.7 to 4,339.5.

Turnover of 588m shares was split evenly between Footsie and non-Footsie stocks and was down from Friday's level when genuine customer business was worth £1.7m.

## FT-SE 100 Share Indices

Turnover by volume (million). Bid/ask spread (pence). Bid/ask spread (pence).

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## Equity shares traded

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## Spirits surge on bid buzz

Denials by Guinness that it had any intention of making a hostile bid for Grand Metropolitan, or of demerger, or selling its brewing interests, failed to extinguish speculation over the two stocks.

GrandMet rose 18 to 440p, the fastest moving stock on the Footsie, while Guinness put on 4 at 474p. The market mullered permutations of media reports that Guinness had asked Lazard Brothers, its lead merchant bank, to review the possibility of a £180m takeover of one of its main competitors in the drinks industry.

## WORLD STOCK MARKETS

EUROPE									
Country	Index	High	Low	Open	Close	Change	Vol	High	Low
Austria (Jul 8 / Feb)									
ATX	1,800.00	1,800.00	1,800.00	1,800.00	1,800.00	0.00	1,800.00	1,800.00	1,800.00
Belgium (Jul 8 / Mar)									
BEX	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
Denmark (Jul 8 / Mar)									
OMXC20	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
France (Jul 8 / Mar)									
CAC40	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
Germany (Jul 8 / Mar)									
DAX	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
Greece (Jul 8 / Dec)									
ATHEX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Ireland (Jul 8 / Mar)									
ISEQ	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Italy (Jul 8 / Mar)									
FTSEMIB	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
Netherlands (Jul 8 / Mar)									
AEX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Norway (Jul 8 / Nov)									
OSLO	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Portugal (Jul 8 / Mar)									
BVL	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Spain (Jul 8 / Mar)									
IBEX35	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
Sweden (Jul 8 / Mar)									
OMXC20	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Switzerland (Jul 8 / Mar)									
SIX	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
Turkey (Jul 8 / Mar)									
BIST	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
United Kingdom (Jul 8 / Mar)									
FTSE100	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
USA (Jul 8 / Mar)									
DOW	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
Japan (Jul 8 / Mar)									
Nikkei	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	0.00	3,500.00	3,500.00	3,500.00
South Korea (Jul 8 / Mar)									
KOSPI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Taiwan (Jul 8 / Mar)									
TSEI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Hong Kong (Jul 8 / Mar)									
HSI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Singapore (Jul 8 / Mar)									
SEI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Australia (Jul 8 / Mar)									
ASX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
New Zealand (Jul 8 / Mar)									
SEAX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Africa (Jul 8 / Mar)									
JSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
South Africa (Jul 8 / Mar)									
JSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Asia (Jul 8 / Mar)									
SEI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
India (Jul 8 / Mar)									
Sensex	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
China (Jul 8 / Mar)									
SSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Russia (Jul 8 / Mar)									
RTS	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Brazil (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Mexico (Jul 8 / Mar)									
IPC	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Argentina (Jul 8 / Mar)									
MERV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Colombia (Jul 8 / Mar)									
VC	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Peru (Jul 8 / Mar)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Chile (Jul 8 / Mar)									
IPSC	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Venezuela (Jul 8 / Mar)									
IVB	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Ecuador (Jul 8 / Mar)									
IBEX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Bolivia (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Paraguay (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Uruguay (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Costa Rica (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Panama (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Nicaragua (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Honduras (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Guatemala (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
El Salvador (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Jamaica (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Trinidad and Tobago (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Barbados (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Guyana (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Suriname (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00
Belize (Jul 8 / Mar)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	0.00	1,200.00	1,200.00	1,200.00

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Continued on next page

## NYSE PRICES

[illegible]**NASDAQ NATIONAL MARKET**[illegible]

# US stocks hold steady at mid-session

## Wall Street

The US stock market surprised many on Wall Street by holding steady in the wake of Friday's sharp sell-off that sent the Dow Jones Industrial Average down by nearly 115 points during the half-day session, writes Lisa Bransden in New York.

At 1 pm the Dow was up 4.06 at 5,583.20, while the Standard & Poor's 500 lost 0.28 at 657.16 and the American Stock Exchange composite shed 2.33 to 572.00. Volume on the New York Stock Exchange came to 197m shares.

Shares tumbled along with bonds on Friday after surprisingly strong data on June employment and wage levels sparked fears that the Federal Reserve might raise interest rates aggressively in the near term.

Many analysts believed that the decline would continue yesterday because many investors were out of their offices on Friday because of the Independence Day holiday.

Mr Eric Miller, chief investment officer at Donaldson, Lufkin & Jenrette, attributed yesterday's stability in the equity market to the steady bond market, where the benchmark 30-year Treasury edged higher in early afternoon trading.

"If the bond market doesn't hemorrhage, the stock market won't," he said. "Anything that threatens a new high in [long term interest] rates and I think the stock market is going to suffer some."

Technology shares were stronger. The Nasdaq composite, which is weighted toward that sector, put on a 2.63 at 1,160.94 and the Pacific Stock

Exchange technology index firmed 0.4 per cent.

IBM was among the strongest performers of the 30 companies in the Dow with a gain of 3 1/4 at \$99.4. Motorola jumped 3 3/4 to \$85.4 as investors hoped that the computer chip and cellular telephone company would report strong earnings later this week.

Meanwhile, Tandy, the consumer electronics retailer, slid 3 3/4 or 9 per cent to \$41 after warning that second-quarter earnings would be below those of the comparable period last year.

Honeywell dipped 3 1/4 to \$51.4 on news that an appeal court had upheld a jury finding that the company had infringed on a patent held by Litton Industries. The latter slipped 3 1/4 to \$42.34 on the news.

## Canada

Toronto was weak in mid-session trade after the inflation worries that shook Canadian and US markets on Friday. The TSE 300 composite index was 14.39 down by noon at 5,048.40 in volume of 31.7m shares.

Gold rose on stronger bullion prices in early trade, but weakened as prices slipped.

The Calgary-based Petroleum Resources was actively traded, picking up 4 cents to C\$25.55.

Banking stocks continued their slide from Friday. Bank of Montreal receded 20 cents to C\$35.85.

Gold stocks were mixed. Arquipa Resources recovered, rising 85 cents to C\$19.15, after falling on Friday on disappointing drilling results from its Florida property in Peru. Placer Dome slipped 45 cents to C\$34 in heavy trading.

# Mexico down 1.5%

There were variations in the performance of the region's equity markets, with MEXICO CITY off 1.5 per cent by mid-day. The IPC index was down 45.58 at 3,080.36 as fears returned of a possible rise in domestic interest rates during the course of the week.

Televisa, the media group, was one of the heaviest casualties, losing 4 per cent after breaking through a technical support level on Friday. The fall was attributed mainly to interest rate worries.

SAO PAULO was moving in a different direction as the Bovespa index picked up 588.57 to 39,481 by early afternoon. On Friday the market had dropped 3.3 per cent.

# Hesitant bourses make up some of lost ground

The Continent spent an uncomfortable morning waiting for the opening of Wall Street, before recovering some lost ground later in the day as the US stock market remained steady.

PARIS was weak in the morning as worries persisted about another decline in the US, but during the afternoon there was a different story which was sufficient to lift the CAC-40. The index, after a session low of 2,055.04, ended at 2,079.06, down 19.73 on the day. Turnover was FF1.2bn.

Docks of France remained in the news, although turnover was on the low side, as rumours developed that Tesco, of the UK, might be about to mount a bid. The French group finished FF1.4 up at FF1.222.

Last week Auchan, a private company, launched a hostile bid valued at FF1.250 a share. Financials were mixed, with BNP losing FF1.30 to FF1.765. Bencard off FF1.9 to FF1.565. Paribas down FF1.30 to FF1.285.00. SocGen off FF1.4 to FF1.537 and Suez FF1.30 weaker at FF1.62.

However, Credit Local went against the trend with a rise of FF1.50 to FF1.630 after a broker's positive recommendation of the group.

Both Bouygues and Générale

des Baux slipped after France Telecom announced that it was cutting prices by nearly 13 per cent. Bouygues, which owns Bouygues Telecom, lost FF1.6 to FF1.564, and Générale des Baux FF1.5 to FF1.495.

FRANKFURT took its lead from the US in fairly muted trading conditions. The Dax index dipped 32.45 to 2,551.04, but after Wall Street's opening the index moved to 2,551.51. Turnover was DM5.5bn.

Investors were also slightly wary ahead of today's German June unemployment data, while prospects for a cut in domestic interest rates by the Bundesbank on Thursday were dashed after the president of the bank said there were no economic grounds for a move.

Mannesmann gained DM6.20 to DM228, then to DM230 in the bid, following a buy recommendation from Deutsche Morgan Grenfell, which lifted its rating from neutral to overweight. The broker forecast that the machinery manufacturer would see earnings per share of DM26.20 in 1996, as against DM22.50 in 1995 and DM27.50 in 1997.

Thyssen rose DM5.50 to DM229, as speculation continued that it would succeed in buying a stake in the German railway's telecom subsidiary.

## FT-SE Actuaries Share Indices

Index	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE 100	1827.55	1826.64	1827.35	1827.35	1827.35	1827.35	1827.35
FT-SE 250	1726.41	1726.03	1727.85	1728.01	1728.24	1728.37	1728.37

Index	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1
FT-SE 100	1700.39	1700.78	1703.23	1708.94	1701.31
FT-SE 250	1724.01	1743.39	1735.13	1738.08	1731.81

Base value 1985 (including inflation): 100 = 1884.121. 200 = 3768.242. 300 = 5652.363. 400 = 7536.484. 500 = 9420.605.

AMSTERDAM was stable in subdued trading conditions. The AEX index finished down 4.48 at 354.45.

There was interest in the publishing sector, with Wolters Kluwer gaining F1.80 to F1.192.80 as Elsevier eased 10 cents to F1.95.

But it was the financial sector that bore the brunt of the falls. ING down F1.10 to F1.4010. ABN Amro off F1.90 at F1.8240. Aegion F1.10 lower at F1.8010 and FortisAm F1.10 lower at F1.430.

Among the international, Royal Dutch lost F1.20 to F1.261 and Unilever fell F1.00 to F1.244.0.

Hogovens, the steel and aluminium company, advanced 20 cents to F1.61 in spite of a broker's downgrade last week.

MILAN trimmed early losses, taking its lead from Wall Street and with little in the way of domestic news to drive

single-day loss in four weeks.

The SET index weakened 15.72 to 1,241.37 in turnover of Bz3.61m.

Most of the major stocks in the leading five sectors ended down, with the biggest loss occurring in the communications sector. Shinwatra Computer and Communications dropped Bz2 to Bz500 and Advanced Info Service, an operator of a mobile telephone service, fell Bz16 to Bz389 in volume of 188,000 shares.

KUALA LUMPUR steadied, after an early stumble, on renewed buying of small-capitalisation issues, and the composite index ended 3.81 softer at 1,139.37 after a low of 1,114.35. SBOUL saw profit-taking which erased early gains, and the composite stock index

finished 2.40 weaker at \$47.99.

SINGAPORE featured further selling in Singapore Telecom, down 14 cents to S\$3.50, compared with its all-time high of S\$4.10 set on June 3.

The Straits Times Industrial Index lost \$7.65 at 2,221.81 as a broad sell-off in the electronics sector sent Goldtron down 3 cents to S\$1.01.

BOMBAY moved ahead in extended trading hours after a power failure disrupted operations. The BSE-30 index picked up 23.71 to 3,720.72 as activity remained focused on a few pivotal shares, supported by news that the government was to reduce a planned rise in diesel fuel tax.

WELLINGTON declined in thin turnover and the NZSE-40 capital index closed off 22.88, or 1.1 per cent, at 2,097.53.

Turnover came to NZ\$27m. Telecom was one of the major casualties, off 11 cents to NZ\$6.15.

Forestry stocks were also weak, with Carter Holt Harvey down 4 cents at NZ\$3.39 and Fletcher Challenge Paper dropping 9 cents to NZ\$2.79. SYDNEY saw the All Ordinaries index fall 38.6 to 2,191.2.

JAKARTA remained volatile, although trading conditions were thin, as uncertainties surrounding President Suharto's health kept many investors sidelined. The JSX index eased 1.31 to 573.83.

Some dealers commented that equities managed to hold steady in spite of falling heavily late last week. Others mentioned that concerns over

general index eased 0.9 to 1,964.4.

ISTANBUL touched an all-time peak as the Islamist-led government won a confidence vote in parliament. The composite index rose 95.16 to 74,531.30, but off a session high of 74,780. Turnover eased to TL9.150bn from Friday's TL9.950bn. The market gained 3 per cent last week as optimism built that the government would win the vote.

WARSAW could not hold on to Friday's 27-month high as profits were taken. The Wig index slipped 1.9 per cent to 14,008.9 as turnover fell by 26.6 per cent to 123.7m zlotys. Losers led gains by 61 to six, with eight stocks unchanged.

Universal rose 2.6 per cent after surging 20.1 per cent last week on news of a 6.3m zlotys tax refund.

VIENNA was another market which fell steadily. The ATX index managed to make a modest recovery from a morning low before closing 8.90 down at 1,076.72.

Radar Heraklith led the losers, dropping 2.4 per cent to Sch333, while VA Tech was the main gainer, advancing 0.45 per cent to Sch1.345.

Written and edited by Michael Morgan and John Pitt

## ASIA PACIFIC

# Nikkei dips below 22,000 as Hong Kong drops 2.6%

## Tokyo

The rise in the dollar against the yen led to fears of import inflation and a shift in monetary policy by the Bank of Japan. The Nikkei average closed below the 22,000 level for the first time since June 11, writes Emiko Terazono in Tokyo.

The Nikkei 225 index lost 307.46, or 1.4 per cent, at 21,924.94 after moving between 21,801.75 and 22,148.11. Concern over interest rates triggered heavy selling on the futures market, which in turn led to arbitrage unwinding. Friday's fall on Wall Street also unnerved investors, making many refrain from trading.

Volume was 288m shares, against 282m, falling below 300m for the third consecutive trading day.

The Toxix index of all first section stocks fell 21.06, or 1.3 per cent, to 1,639.44. The Nikkei 300 lost 3.96 to 309.66. Declines led advances by 973 to 114, with 122 issues unchanged.

In London the ISE/Nikkei 50 index gained 1.29 at 1,488.23.

The dollar rose above the ¥111 level for the first time since January 1994, raising concerns of import inflation. The yen's previous strength had boosted the amount of imports into Japan, and some investors were worried about the negative impact on domestic prices.

Interest rate fears and arbitrage linked selling hit banks. Industrial Bank of Japan lost

¥20 to ¥2,810. Bank of Tokyo-Mitsubishi declined ¥40 to ¥2,430 and Dai-ichi Kangyo Bank fell ¥30 to ¥1,960.

Daiwa Securities, which had lost ground last week on reports of irregular trades, fell further, declining ¥80 to ¥1,780.

The weak yen failed to help exporters: technology issues fell, with Hitachi off ¥20 to ¥7,000 and Toshiba retreating ¥5 to ¥7,800. Sony declined ¥80 to ¥7,130 in spite of early buying by foreign investors.

In Osaka, the OSE average receded 304.63 to 25,167.74 in volume of 15.2m shares.

## Roundup

Regional markets took their cue from the sharp declines in US stocks and bonds on Friday after a stronger than expected employment report which reinforced worries that the Federal Reserve would raise interest rates soon.

HONG KONG posted its biggest single-day loss in nearly four months as renewed fears of rising interest rates drove investors out of the market. The Hang Seng index finished 287.06, or 2.6 per cent, down at 10,844.91. Turnover surged to HK\$6.30m.

Few sectors were spared as investors liquidated even so-called defensive stocks, such as utilities. China Light receded 60 cents to HK\$4.40 and Hong Kong Telecom shed 40 cents to HK\$13.40.

BANGKOK saw its heaviest

single-day loss in four weeks.

The SET index weakened 15.72 to 1,241.37 in turnover of Bz3.61m.

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Some dealers commented that equities managed to hold steady in spite of falling heavily late last week. Others mentioned that concerns over

Mr Suharto's health had eased at the weekend.

Bimantara, which is controlled by Mr Suharto's second son, Bambang Trihatmodjo, rebounded Rp75 to Rp2,635.

Inter Delta, an electronics stock, rose 24 per cent, or Rp425, to Rp2,425 on rumors that the company was a takeover target.

TAIPEI encountered profit-taking in the electronics sector. The weighted index lost 63.39 at 6,327.46. Turnover was a modest T\$32.52bn.

Electronics shares dropped 2.3 per cent, with Taiwan Semi-conductor Manufacturing off 45 cents, or T\$2.50, to T\$9.30. MANILA retreated from the record high seen on Friday and the composite index fell 64.94, or 1.6 per cent, to 3,590.16.

## MARKETS IN PERSPECTIVE

	% change in local currency			% change sterling	% change in US \$
	1 Week	4 Weeks	1 Year	Start of 1990	Start of 1980
Australia	-0.31	-6.16	+2.47	+11.78	+44.47
Belgium	+1.32	+0.63	+19.12	+7.88	+10.79
Denmark	+0.75	+2.79	+19.23	+11.50	+8.21
Finland	+0.99	-0.64	-13.50	+10.79	+2.94
France	-0.88	-0.06	+12.44	+15.07	+8.78
Germany	+0.30	+1.33	+19.57	+12.29	+5.01
Ireland	-1.22	-1.23	+22.04	+11.31	+1.16
Italy	+0.68	+0.21	+3.39	+11.72	+0.91
Netherlands	-0.41	-0.44	+28.99	+15.75	+8.25
Norway	+1.53	+0.93	+14.47	+13.15	+5.92
Spain	-1.67	+1.14	+28.08	+15.30	+8.74
Sweden	-1.21	-2.12	+18.94	+13.26	+6.85
Switzerland	+0.11	+4.86	+20.87	+13.81	+5.23
UK	+0.91	+0.82	+10.50	+2.09	+2.26
EUROPE	+0.19	+0.87	+15.96	+8.98	+0.98
Australia	-0.82	-0.16	+9.22	-0.84	+5.92
Hong Kong	+0.69	-0.40	+18.30	+12.24	+11.91
Japan	-1.25	-1.78	+28.44	+8.17	+1.41
Malaysia	+0.11	+0.88	+8.00	+13.45	+12.85
New Zealand	+1.72	+4.84	-1.48	-2.38	+2.27
Singapore	-1.07	-2.04	+6.12	+1.09	+0.95
Canada	+0.41	+1.36	+10.84	+8.17	+7.61
USA	-1.92	-2.49	+19.71	+8.47	+8.29
Mexico	-2.80	-4.18	+34.36	+13.80	+14.96
South Africa	+0.38	+0.22	+27.02	+12.16	-5.98
WORLD INDEX	-1.00	-0.44	+22.08	+7.26	+4.72

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## FT/SE ACTUARIES WORLD INDICES

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	US Dollar Index	Day's Change	FT-SE 100	FT-SE 250	Local Currency	Local Currency % chg	Local Currency % chg on city	US Dollar Index	Day's Change	FT-SE 100	FT-SE 250	Local Currency	Local Currency % chg	Local Currency % chg on city
Australia (A\$)	200.86	1.0	181.48	140.78	128.58	108.82	0.1	4.36	180.81	188.91	138.71	137.47	188.58	212.18
Austria (S)	135.86	-0.2	174.12	128.02	145.10	145.04	0.1	1.84	180.07	173.95	127.72	145.00	144.84	188.11
Belgium (Bfr)	211.18	-0.8	201.32	148.02	167.78	163.78	-0.8	4.07	212.52	202.51	148.55	188.64	184.85	215.81
Brazil (R)	153.83	-2.1	173.24	128.58	146.03	139.82	-2.1	1.92	173.75	176.40	130.99	148.71	147.25	187.75
Canada (C\$)	100.01	-1.2	125.54	112.15	127.11	158.57	-1.2	2.28	181.95	133.89	113.00	128.28	188.44	185.12
Denmark (DKr)	204.33	-1.5	200.12	213.31	241.76	243.62	-1.5	1.88	208.01	208.02	215.80	244.75	246.68	208.01
France (Ffr)	182.91	-1.0	183.89	125.21	133.24	188.88	-1.0	2.65	184.62	185.19	125.83	154.32	181.29	211.1
Germany (M)	105.51	-1.3	185.38	127.03	155.31	158.37	-1.3	3.04	185.11	188.24	138.22	159.31	180.08	183.30
Italy (Lira)	172.18	-0.1	184.15	128.88	138.78	138.78	0.2	1.82	172.43	183.84	120.30	138.89	126.57	174.38
Japan (Yen)	204.94	+0.1	414.34	304.63	431.37	431.38	-0.1	3.30	413.57	413.57	304.74	432.88	431.38	387.48
Netherlands (Gld)	203.81	-0.1	184.12	142.71	161.74	282.41	-0.1	1.56	210.08	192.81	148.57	208.29	201.89	281.89
Ireland (Ir£)	283.09	0.1	280.87	198.42	224.88	250.02	0.4	3.43	282.92	288.83	197.39	248.12	289.02	23

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FINANCIAL TIMES TUESDAY JULY 9 1996

## 1996 WORLD RALLY CHAMPIONSHIP



# Winning's not our top priority...



... really.

Winning is great, but it's not to be mistaken for the real objective of our '96 WRC efforts: the testing and development of new automotive systems and technologies in the harshest driving conditions on earth. And once we've got a winning technology, it's immediately adapted to our Mitsubishi production cars, making *you* the biggest winner of all.

*Oh, and by the way, we did take the overall victory in Argentina.*



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## NEWS: UK

Disagreement remains over who is responsible if paperless settlement fails

## Share system still not authorised

By John Gapper, Banking Editor

Final agreements to allow the Crest paperless share settlement system to start next week were still in negotiation yesterday following disagreements over who will bear liability if it fails to work.

CrestCo, the company that will run Crest, said that it was still signing agreements with the companies that will run its electronic network. It has yet to gain authorisation from the Securities and Investments Board, the main City of London regulator as a result.

Some of the 24 registrars that must electronically adjust ownership of company shares within two hours of a trade were pressing for these companies to bear the costs of fines if the network breaks down and stops them meeting contracts.

"We think it is unfair if we suffer a penalty for something that is not our fault," said Mr Tom Morrison, the chief registrar of the Royal Bank of Scotland. RBS is one of the largest registrars intending to take part in Crest.

The executive committee of SIB is expected to meet later in the week to authorise Crest to

operate as an electronic share settlement system and an electronic clearing house. Crest is due to begin a phased start to operations next Monday.

CrestCo has already conceded the principle of placing a cap on fines that can be levied on registrars for failing to meet service standards. However, registrars have also pressed to escape fines for failures due to network failures.

Lloyds Bank, another large registrar, said it expected to sign a contract with Crest immediately. It said it thought the main areas of contention between it and the network

providers - Swift and Syntegra - had now been resolved.

Crest is to replace the Tallis-man share settlement system owned and operated by the London Stock Exchange. Crest is owned by about 60 large institutions, and has been developed under Bank of England, UK's central bank, management.

It would be awkward if Crest was unable to start as on time since it has a complex timetable to meet if it is to take over from Tallis-man entirely by next spring. However, it is widely expected to meet the deadline despite these issues.

SIB said that it was not unusual for a project of Crest's complexity to be authorised just before it was due to start operating.

Mr Morrison said that RBS was still waiting to hear if the network providers would bear the cost of fines on registrars when the network failed. The alternative was that CrestCo might not levy fines on registrars in such cases.

CrestCo said that it did not believe there were substantial issues still to resolve, and the disagreement had simply been part of normal business negotiations.

## English Channel ferry operators may link up

More co-operation could ease the pricing war

People travelling between Britain and mainland Europe this summer have an unrivalled choice of ferry sailings across the English Channel.

The number of ferry departures on the Dover-Calais route has increased sharply since the opening of the Channel tunnel linking Britain with mainland Europe, while ticket prices have been slashed.

But the frenzied activity on the quayside finds no echo in the boardrooms of the companies which own the ships. P&O and Stena, the two main operators on the cross-Channel routes, are keen to limit competition. However, they are bound by undertakings given in 1982 that they would not merge their activities.

This enforced inactivity could change this week, if, as is widely expected, the government gives its approval for the lifting of these undertakings.

A stockbroking analyst said that with the tunnel claiming a market share of 40 per cent to 45 per cent, "there is no reason now for the government to continue its ban". However, he added that reaching an agreement between the companies "will be a cat and mouse game

with neither side wanting to give away too much".

P&O has more ships in UK waters - 23 against Stena's 19 - but Gothenburg-based Stena has a wider range of routes in Scandinavia which provide a cushion against competitive pressures in the Channel.

P&O has a larger share of the Dover-Calais market - 30 per cent against Stena's 20 per cent - but this is a route where shipping operations make a loss and the only profits come from duty and value added tax-free sales.

"P&O needs the deal more," said one analyst. "Lord Sterling [the chairman] is under greater shareholder pressure to improve the company's performance."

Stena, too, has been feeling the heat generated by the Channel tunnel's opening. Last month it issued a profits warning, forecasting 1996 pre-tax profits even lower than the SKr200m (\$60m) for last year, which in turn was less than half the 1994 figure.

Even if the UK competition authorities sanction discussions, they will not want to remove all restrictions on the ferry operators' freedom of action.

"A full-blown merger of their

ferry operations is out of the question," said another analyst.

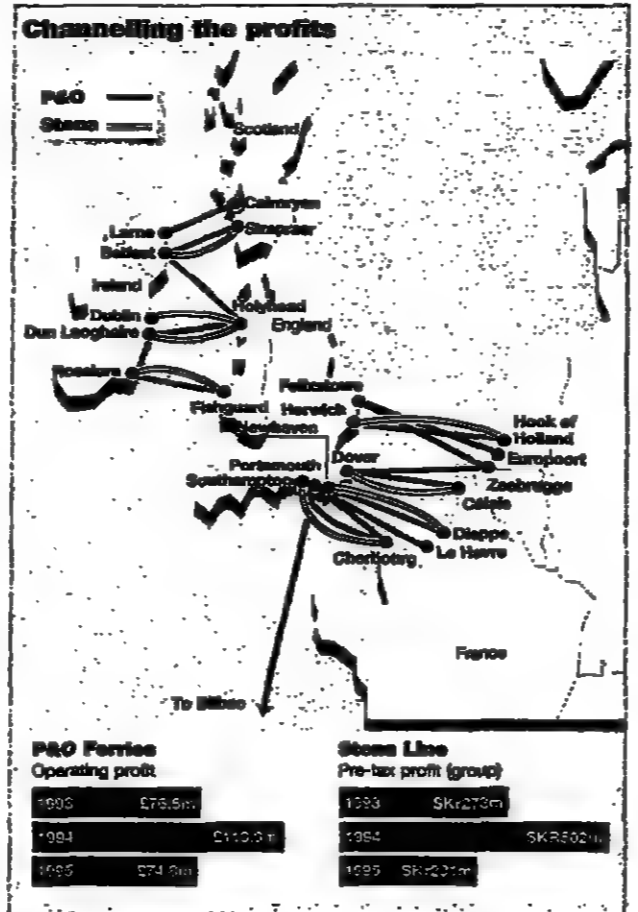
A limited pooling arrangement would allow the companies to agree a matched reduction in the number of daily sailings. But it would prevent the considerable savings which could be achieved by joint marketing and reducing the sizeable advertising budgets.

At Stena, UK staff emphasise the company's keenness on running "stand alone" ferry services, though Mr Bo Lennert, the chief executive, says he is interested in a possible pooling arrangement - not just with P&O.

Last year saw the end of a long-running pooling agreement with SNAT, a subsidiary of SNCF, the French state-owned railway. A new agreement involving the ultimately state-owned SNAT, which now markets itself as SeaFrance, would complicate matters at this point.

However, while 1996 is expected to be the worst year for the cross-Channel ferry operators, profits could bounce back in a year or so when the tunnel is operating at full capacity.

"Giving the ferries carte



Channel battle mounting by the month, the protagonists will be grateful for any relief - though travellers could end up paying higher fares.

Charles Batchelor

## Patten promises European 'crusade'

By Lionel Barber in Brussels

Mr Chris Patten, governor of Hong Kong, yesterday declared he would return home and mount a personal crusade to put Britain back "at the heart of Europe" once he completes the handover of the colony to China in mid-1997.

Mr Patten, staking out a leading role in the governing Conservative party after the next UK general election, said he was ready "with all the passion I can muster" to "knock on doors" to promote the pro-European cause in Britain.

"The party to which I belong, and of which I was once chairman, was associated with the historic, important and belated decision to join the European Community. I want to remain in a party dedicated to the successful membership of the European Union."

Mr Patten was speaking in Brussels on an official visit to press for visa-free access to the EU for Hong Kong residents, and to canvass political support during the transition to Chinese rule.

The governor made clear he thinks the anti-European drift inside the Tory party has gone too far. "I believe very strongly that Britain's role is to be at the heart of Europe. It is inconceivable to imagine circumstances in which Britain was not a member of a prosperous and decent European Union."

Without mentioning monetary union, Mr Patten signalled that eastern enlargement was a higher priority. "I cannot help but compare the speed and vigour which we opened our arms to Greece, Spain and Portugal after the end of the fascist governments with the more cautious pace with which we have proposed welcoming the Warsaw Pact."

If Mr John Major were to lose the next election, to be held by next May, Mr Patten's chances of succeeding him are rated as slim, partly because of possible difficulties finding a House of Commons seat.

## UK NEWS DIGEST

## BA pilots agree to negotiations

Talks aimed at averting next week's planned strike by British Airways pilots are due to start today with both sides expressing hopes of reaching agreement. The breakthrough followed an initiative yesterday by Mr Chris Darke, the general secretary of Balpa, the pilots' trade union.

In a letter to Mr Robert Aytting, BA's chief executive, he called for a resumption of negotiations, saying it was in their mutual interest to try to find a solution to a dispute that could inflict serious financial damage on the company. BA's 3,500 flight crew staff are to take indefinite industrial action from July 16.

BA said last night that this was a positive development. "We have been trying to get the union to the negotiating table for some days," it said. "We will listen carefully to whatever Balpa has to say. We want to identify what the core of the problem is and see whether we can find reasonable ways of addressing it."

## LONDON UNDERGROUND

## Employers say strike crumbling

Nearly 40 per cent of London Underground services ran normally yesterday in the first sign that the drivers' strike may be crumbling, London Transport said. The Aslef train drivers' union executive will decide today whether to attend peace talks with the concession service Aslef to try to resolve the dispute. The drivers' next one-day strike is due next Tuesday. Tomorrow the result of a strike ballot of Underground drivers belonging to the larger RMT transport union is due to be announced.

## NORTHERN IRELAND

## Parties threaten to quit talks

Unionist politicians last night threatened to withdraw from the all-party Northern Ireland peace talks because of the stand-off between the Protestant Orange Order supporters and the Royal Ulster Constabulary in Portadown, Northern Ireland. As the province braces itself for further violence, Unionist sources said that Mr George Mitchell, the former US senator chairing the talks, would be told of the parties' intentions today.

It was understood that the Ulster Unionist party, Mr Ian Paisley's Democratic Unionist party and the United Kingdom Unionist party were intending to boycott the talks. For the second time in 24 hours, the police fired plastic bullets to disperse loyalist demonstrators at the tense stand-off at the Drumcree church outside Portadown. As evening approached on the second day of the clash, a crowd of some 400 Orangemen was bolstered by the arrival of loyalist supporters from outside the area.

## ECONOMICS

## Manufacturing output stagnates

The enfeebled state of Britain's manufacturing sector was highlighted yesterday by official figures showing that factory production stagnated in May while industrial prices and raw material costs both fell last month. The figures - which came on the eve of the summer economic forecast by Mr Kenneth Clarke, the chancellor of the exchequer - underline the dichotomy in Britain's "two-speed" economy: growth in manufacturing has ground to a halt, while output in the service sector is still expanding strongly.

The figures make it more likely that Mr Clarke will try to squeeze in another cut in UK interest rates next month. But some officials at the Treasury and the Bank of England, the UK central bank, fear this would be ill-advised as they expect manufacturing to rebound strongly later this year. The Office for National Statistics said that factory output was unchanged in May, but the statisticians revised up their original estimate of output in April by a fifth of a percentage point. The underlying trend in factory output has now been flat for six months.

## BROADCASTING

## BBC to announce new team

The BBC is expected to announce this week the team in the BBC News Directorate, which will be responsible for making World Service programmes, in an attempt to head off criticism of its management restructuring. On Friday Mr Sam Younger, managing director of the World Service, announced to staff the three people who will be in charge of World Service commissioning. They are Mr Bob Jobbins, who will be in charge of news, Mr Penny Tuerk, non-news programming, and Mr Chris Gill, resources.

Restructuring of the BBC into functional units will deprive the World Service, the corporation's English language overseas service, of its programme-making capacity.

A World Service commissioning team will buy in programmes under contract from BBC News and from BBC Production, the new unit that will be responsible for making virtually all BBC programmes.

## TECHNOLOGY

## 'Virtual' institute planned

Heriot-Watt University, in Edinburgh, Scotland, is to be the centre of a new National Microelectronics Institute funded by nine UK-based semiconductor manufacturers. It was announced yesterday. Heriot-Watt will provide the hub for a "virtual" institute, linking existing university and company facilities, which will focus initially on ensuring the availability of skilled technicians and engineers. The institute is supported by Motorola, NEC, National Semiconductor, Segate, Siemens, Philips, Newport Wafer Fab, Philips and GEC Plessey.

David Wigham, London

## Banks to pursue Iraq over £500m of defaulted loans

By Jimmy Burns in London

A group of banks, backed by the UK's Export Credits Guarantee Department, have notified the High Court in London that they intend to pursue claims for about \$500m (\$780m) in loans which Iraq has defaulted on.

Under the statute of limitations - a UK law covering the recovery of debt - the banks were facing the expiry of a six-year period in which they had to serve notice of their intention to take legal action to recover the loans.

The ECGD said: "We had to pre-empt any legal action by Iraq to declare the debt invalid after six years."

The banks include Midland, Morgan Grenfell, Barclays, National Westminster, Bank of Kuwait, Arab Banking Corporation, and Banque Paribas.

Banks in the UK have approximately \$1bn in Iraqi assets frozen by the Bank of England during the Gulf War.

Banks would need to take legal action to have the funds sequestered and used to secure repayment. The UK government is unlikely to give the go-ahead for any move on the blocked Iraqi funds in the short term.

The Iraqi government departments named in the High Court writs issued by the banks include the Ministry of Industry and Military Manufacturing, and the Ministry of Water and Sewerage.

The move comes four months after the publication of the Scott arms-for-Iraq report which confirmed the extent to which UK's commercial links with Iraq including military ties, were underpinned with trade credits approved through the ECGD.

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Hotel Sheraton, Munich, Germany	1,450
Hotel Sheraton, Hamburg, Germany	1,040
Hotel Sheraton, Stuttgart, Germany	270,000
Hotel Sheraton, Dusseldorf, Germany	149
Hotel Sheraton, Bonn, Germany	161

## Wickes affair highlights audit role

Home handyman chain's problems with contracts raise wider issues

The accounting scandal at Wickes, a UK home handyman chain, will have sent shivers through the British retail sector. Directors, shareholders, and auditors will be asking whether their companies have also enjoyed inflated profits as a result of an accounting scam.

Wickes' problems relate to contracts with suppliers. Various inducements are often offered by suppliers to retailers to help persuade them to take their goods and promote them vigorously in their stores. All are perfectly legal. These range from "golden hellos", which could cover marketing or secure a prominent shelf position to "over-riders" which offer a retrospective rebate to the retailer once a certain volume of sales has been reached.

The problem is the timespan of the contract. If, for example, a rebate relates to sales over three years, the company's

profits should benefit by a third of the total rebate during each of the three years. If it is a one-off contract, profits can be boosted by the total amount of the rebate in the next set of accounts.

What appears to have happened at Wickes is that auditors and senior management saw one set of contracts - which persuaded them that they could book the profit straightaway. But side letters existed between suppliers and some staff which told a different story - contracts were stretched over several years.

No individual gained directly from this practice but the result is that the company's profits were overstated. Estimates suggest operating profits could have been overstated by at least £20m to £25m (£31m to \$39m) last year - against a reported operating profit of £26.7m.

The Wickes affair poses two questions. First, how common

are supplier discounts and how are they normally treated in the accounts? Second, how common is it for the true nature of the contracts to be concealed from the auditors and the boards of companies?

There is no doubt that a wide range of such discounts is common in the UK retail sector. "Suppliers are having a pretty rough time with the major players. They are quite keen to keep themselves on the shelves with the secondary labels," says one accountant in the retail trade.

To get into stores, suppliers are prepared to surrender part of their profit margin. How it is later accounted for is not, in their view, their problem.

However, while there is a "grey area" in which discounts could be either spread, or taken straight to profit, most contracts will be clear enough to leave little room for argument. The classic accounting tenet of "prudence" requires

that no revenue can be booked until its receipt is reasonably certain. Some companies would see that as meaning they had to have the cash.

Auditors do have some room for manoeuvre. There is a "spectrum of prudence" in which they can legitimately move. If a company is £2m short of meeting a key forecast - which economists in the City of London are keenly awaiting - there will be pressure to choose a method which delivers the right numbers. But massive distortions of profit are extremely unlikely as long as the details of the contracts are transparent.

More worrying is the possibility that collusion between suppliers and some staff is widespread in the sector. The anxiety of auditors is understandable as they have little defence against being misled by staff or third parties.

Jim Kelly

## TECHNOLOGY

## Surfing the index

A computer protocol developed by librarians could let users search databases, writes Richard Poynder

MURIEL'S STRENGTH IS THAT SHE BRINGS A TRAINED LIBRARIAN'S SENSE OF ORDER TO THE CHAOS OF THE INTERNET



## BEHIND THE NET

Order could soon be brought to the chaos of the Internet by an obscure computer protocol developed by librarians to share electronic library records. A product of organic growth, the Internet has no official central index. This, combined with the speed and manner in which new data are constantly being added, makes finding relevant information a Herculean task.

Called Z39.50, the protocol could have important implications for anyone who scours the Internet for information. At present, users normally have to search each database separately using different commands; but the protocol would allow unified searches across multiple library catalogues and commercial databases, as well as millions of Web pages.

Z39.50 is a "client/server application protocol" that allows one computer system (the client) to search and retrieve information from another computer system (the server). It grew out of a 1980s project to develop a way of enabling electronic bibliographic records held at different library sites to be mutually accessible over networks. Members of the project included the Library of Congress and the US Research Libraries Group.

Effectively, Z39.50 is an Esperanto language that allows non-compatible databases to communicate. So long as both sides can "speak" Z39.50, the client can retrieve information from structured databases of different types in a consistent way. It allows simultaneous searches of multiple databases, too.

In recognition of its wider potential, Z39.50 has been adopted as a US national standard. It has also been extended to allow a wider range of data types to be recognised, including files containing multimedia components such as images and sound. Z39.50, its advocates argue, is an ideal tool to tame the Internet.

Previous attempts have focused on automated search engines. These roam the network, bringing back to a central server new or updated information that users can search by inputting words or phrases. This approach is adopted by Lycos, InfoSeek and Digital Equipment's AltaVista, the most ambitious such project so far, which claims to have indexed 150 million words from more than 300 Web pages.

Search engines are designed to index every word in every document, leading to a plethora of data and imprecision. "Overload and irrelevance is inevitable when you have no bibliographic control," says Robin Murray, technical director at Fretwell-Downing, a Sheffield-based library automation company. "Con-

sequently there is much discussion now about introducing bibliographic tags to Web pages." This is familiar territory for librarians, who use classification codes such as the Dewey Decimal System, and Z39.50 was developed precisely to handle such bibliographic tags.

"If Z39.50 were implemented on search engines like AltaVista it would be possible to search on, say, author name or subject, rather than full-text searches within the body of a document," says Ray Denenberg, a senior network development officer at the Library of Congress.

There are obstacles. It would be necessary to get widespread agreement to adopt Z39.50 as a network standard. It would also require all Web pages to be indexed with bibliographic tags. "You could argue

this is beginning to happen in an ad hoc way," comments Denenberg. "But if everybody ends up doing it their own way you will have chaos. There has to be a standard."

At a recent workshop meeting of W3C, the industry consortium dedicated to developing common standards for the evolution of the Web, a number of people expressed unhappiness with Z39.50.

"It was felt it was too large and complex for the Web. Part of the problem is that it is heavily focused towards traditional paper-type content," says Ben Horowitz, a product manager at Netscape, the leading supplier of browser software.

It was proposed, therefore, that advocates of Z39.50 should develop a simpler version of the protocol, which is already being dubbed

## "Z39.50 Lite"

Whatever route the wider Internet community takes, libraries are increasingly using Z39.50 to share data over the Internet. The Irish Library Council's Iris service, for instance, enables users to search the catalogues of six libraries, including Trinity College, Dublin. They can also go through UnCover, a commercial database containing bibliographic details of more than 7m articles from 17,000 English language periodicals.

Commercial database providers are also adopting Z39.50. SilverPlatter Information distributes more than 280 professional databases, mainly in the medical and scientific area. Last year it built a Web gateway to offer Internet access to its databases.

In spite of developing its own proprietary data-exchange protocol, DXF, the company recently adopted Z39.50. "Our goal is to build a worldwide library," says Gillian Reid-Holmes, SilverPlatter's general manager. "For that you need interoperability."

SilverPlatter's "worldwide library" envisions a future in which users will be able to conduct simultaneous and seamless Internet searches using their preferred interfaces, across self-selected clusters of databases, regardless of who the various content providers are or the physical location of the databases. Such a vision raises questions about security and billing, suggesting that initially the protocol will be confined to the corporate intranet.

Murray says: "Large enterprises tend to have tens or hundreds of internal databases. They probably also have access to external commercial ones. If all these databases were Z39.50-compatible, then rather than searching each database one by one, the user would be able to issue a single query and interrogate all those available to the enterprise in one go."

Francesca Green, senior analyst at the European Bank for Reconstruction and Development, welcomes this scenario. With access to four external online services and seven locally networked CD-ROM databases, she has to connect separately to each database and run a new search for each one using different commands. "To be able to search them all at once would be wonderful," she says.

The debate about Z39.50 is a timely reminder for the Internet community that not everything has to be built from scratch.

"Librarians have been dealing with computerised information for almost 30 years," says Neil Smith, head of network services at the British Library. "There are lots of ways in which the skills acquired by librarians could benefit the development of the Internet."

Scientists awaiting a phone call from ET say it is just a question of 'when' not 'if', explains Bruce Dorminey

## Is there anybody out there?

As America watched hostile extraterrestrials wreak havoc in the new film *Independence Day* last week, an interdisciplinary colloquium of scientists converged on the Italian island of Capri to discuss their real-life search for alien intelligence.

For most of the 200 participants (including three Nobel Prize winners) at the week-long 8th International Conference on Biosignatures, the question is not whether such extraterrestrial intelligence exists, but when, where and by what means it will be discovered.

The issue has heated up since the recent announcements of Jupiter-like gaseous planets circling relatively nearby stars. San Francisco State University's Geoff Marcy and Paul Butler reported yet another new planet, about 60 per cent of Jupiter's size and in orbit around Upsilon Andromedae some 40 light years away.

Of six known extra-solar planets, none is like Earth. Earth-like planets could still exist in these newly discovered planetary systems. It is just that current technology is unable to detect them. No matter, extra-solar planets bolster the argument for extraterrestrial life. Yet after surveying four of the six new systems, there are no signs of a radio signal.

Searching for intelligent narrow-band radio beacons from beyond the solar system has been a continuing process since 1959 when Frank Drake first directed West Virginia's Greenbank radio telescope towards Tau Ceti, a sun-like star 18 light years away. But MIT's Phil Morrison came upon the notion of looking for intelligent signals in frequencies ranging from 1,420 to 1,730 MHz (about the wavelength of a microwave oven). These frequencies encompass natural emissions of hydrogen and hydroxyl, both common in the universe.

In the last 25 years Seti (Search for Extra Terrestrial Intelligence) has been primarily conducted by four groups in the US: the California-based Project Phoenix, Harvard's Beta Project, Berkeley's Serendip IV and Ohio State University's Big Ear search. Argen-

tina's Meta II project has a southern all-sky search and Australia has just formed a Seti Institute that would like to continue Project Phoenix's targeted southern star survey.

Yet astrophysicists everywhere cringe at the thought of being associated with either the expanding UFO field or the scores of people who claim to have been "abducted" by wayward aliens.

"Do I think we have ever been visited?" asks Stuart Bowyer, chairman of the conference's scientific organising committee and

operators currently send each other signals by bouncing signals off the moon. With that same sort of equipment they could send radiograms to Alpha Centauri.

With a \$3m (£1.5m) annual budget, the privately funded Project Phoenix can afford to complete its 1,000-star survey of sun-like stars within 150 light years of Earth. After surveying 269 stars from its 15m radio telescope in Australia, it has had 39 false positives, but no verifiable detection of any radio signals. From September, it will continue its search using the 140m-wide Greenbank telescope and a second, much smaller, radio telescope in Georgia for signal verification.

"I can't tell you how many civilisations are out there," says Bowyer. "But I can tell you once we get the carrier signal then it will be one year or less until we get TV pictures from them."

Perhaps the most famous signal seen as a real message was 1977's Wow! detection at Ohio State University, so-named for the exclamation scribbled by an excited staffer on the computer printout. "We went back 100 or more times in subsequent days and never found a thing," says Bob Dixon, the project director. "But we know it came from at least as far away as the moon and did have what communication engineers would have called sidebands which are what carries information in an AM [medium wave] broadcast signal."

While searches can now process 850m channels simultaneously, present search strategies and protocols still suffer from lag time. Most Seti searches assume civilisations will be constantly communicating in a directed signal beam, which precludes the possibility of a sweeping or intermittent beacon.

It is a question of being in the right place at the right time, while avoiding ever-increasing terrestrial radio interference. This is why some Seti searches want to place a huge radio dish on the dark side of the moon. They have targeted a 100km-wide crater near the lunar equator, the only place in the solar system with no radio interference from Earth.

director of the Serendip IV search. "No. Do I think that we will ever be visited? No. The resources needed to produce an interstellar space vehicle are huge and then what do you do when you get there?"

If extraterrestrial intelligence were discovered, earth's perceived monopoly on intelligent life in the universe would be swept aside. "The problem is not that there won't be life out there," says Daron Leigh at Harvard. "The problem will be finding telescopes at each other and starting a conversation. We can now send interstellar telegrams out to 1,000 light years at an energy cost of about a dollar a word," he says. "Radio

Macquarie Bank, the only major Australian-owned investment bank, which is due to make its stock market debut in a matter of weeks, has named two joint deputy managing directors, under Allan Moss, managing director. They are John Caidon, who heads the bank's corporate finance division, and Richard Sheppard, who runs the corporate banking and corporate affairs group. Both have been with the bank for over a decade. Caidon joined 11 years ago, when Macquarie was still the old Hill Samuel Australia operation, while Sheppard has worked for the group since 1975. *Nikki Tail*

Jeffrey Keil, one of the closest associates of Edmond Safra, the secretive Swiss-based financier, is resigning as president of Republic New York Corporation. He is setting up an invest-

ment partnership which will invest in the financial sector of Israel. Safra, who controls a network of banks around the world, owns 70 per cent of Republic, a US bank holding company with assets of \$41.5bn. Keil, 53, joined Republic 25 years ago, and has been heavily involved in helping Safra build Republic into one of the top 20 US bank holding companies. Keil is leaving the group at the end of September and is setting up Keil Investment Partners, with the help of Lazard Freres.

There have been suggestions that Keil's departure may have been prompted by Republic's conservative growth strategy. Although Keil's skills are in investment banking, Republic's strength lies in retail and private banking on the back of its strong balance sheet. Keil says that he is leaving the safest bank in the world. "That is what Edmond wanted Republic to be, and I have strived to contribute to his vision." *William Hall*

Chay Kwong Soon, co-founder, president and chief operating officer of CREATIVE TECHNOLOGY, the computer sound board maker based in UNIVERSAL PICTURES. She will remain a director.

Richard Cavill, deputy chairman of SOUTHCOPT HOLDINGS - Vintner and industrial group, has retired. He will be replaced by Helen Lynch.

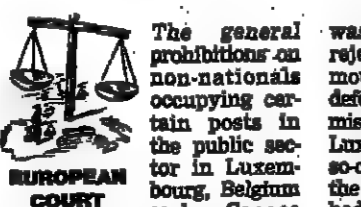
William Harper, chief financial officer of NATIONAL STEEL Corp of the US, has resigned.

Bruce Nakao has resigned as chief financial officer of Adobe Systems, to take the same role at PUMA TECHNOLOGY. Charles Geschke, president of Adobe, will take temporarily over Nakao's responsibilities.

International appointments  
Please fax announcements of new appointments and retirements to +44 171 878 3826, marked International People. Set fax to 'Fin'.

## LAW

## Nationality curb ruled unlawful



The general prohibitions on non-nationals occupying certain posts in the public sector in Luxembourg, Belgium and Greece were contrary to EC treaty provisions on freedom of movement for workers within the Community, the European Court of Justice ruled.

In three related cases, the European Commission brought proceedings against Luxembourg, Belgium and Greece over access to posts in fields as diverse as teaching, health, transport, post and telecommunications, and water, gas and electricity distribution. In the case of Greece, the prohibition extended to the Athens Opera and municipal orchestras.

Having sent letters of complaint and issued reasoned opinions to each of the states, the Commission brought three actions in the European Court of Justice complaining that Luxembourg, Belgium and Greece failed to fulfil obligations under the EC treaty and secondary legislation over freedom of movement for workers.

The treaty laid down the principle of the free movement of workers and the abolition of all discrimination based on nationality between workers of member states. It also stated that the provision in question was not to apply to employment in the public service.

According to the case law of the Court of Justice, this exception only covered posts which involved direct or indirect participation in the exercise of powers conferred by public law and duties designed to safeguard the general interests of the state or of other public authorities. This precluded a special relationship of allegiance to the state and reciprocity of rights and duties which formed the foundation of the bond of nationality.

The exception did not, therefore, cover posts which, while coming under the state or other organisations governed by public law, did not involve any association with tasks belonging to the public service proper so called. Having analysed the posts to which access

was restricted, the court rejected all the arguments mounted in the three states' defences. In particular, it dismissed the objection raised by Luxembourg and Greece to the so-called "global" approach of the Commission, by which it had excluded entire areas from the public service exception without providing more details of the posts concerned.

The Commission argued that those posts were too remote from the specific activities of the public service to be covered in general by the exception. In those circumstances, it must be entitled to exclude application of the exception in all the areas raised in the proceedings, without any preliminary post-by-post examination.

The Commission also found that the activities performed in the areas in question also existed in the private sector or could be performed in the public sector without being subject to a nationality condition.

The court did not consider that this approach was affected by arguments put forward by Luxembourg concerning the preservation of national identity and its special demographic situation. In the Belgium and Greece cases, the court refused to take into account changes in legislation which had not been implemented before the expiry of the period set by the Commission in its reasoned opinion.

Similarly, the fact that after the expiry of that period a German musician who wished to be employed by the Athens Opera had been given a contract of indefinite duration, was irrelevant.

The court also rejected the request of Luxembourg that should it be found in breach of its obligations, it be granted a long period of grace in order to comply with Community obligations. The court observed that the EC treaty did not confer any power on it to grant a period of time for compliance.

Cases C-473/93 *Commission v Grand Duchy of Luxembourg*; C-173/94 *Commission v Kingdom of Belgium*; C-289/94 *Commission v Hellenic Republic*, ECJ (FC) 2 July 1996.

BRICK COURT CHAMBERS, BRUSSELS

## Change of style at head of Swiss Re

Walter Kielholz, who succeeds Lukas Mühlemann as chief executive of Swiss Re after the latter's promotion last week to head the restructured Credit Suisse Group, is a marked contrast to his last-moment predecessor.

An insurance industry veteran - Mühlemann is a former McKinsey consultant - Kielholz joined Swiss Re in 1989 as head of its Japan and the Far East sector. He had previously worked at General Re, the US-based reinsurer, and Credit Suisse, where he was responsible for customer relations with large insurance groups.

Within the organisation, the 45-year-old Kielholz (a year younger than Mühlemann) is regarded as clever and creative. Most recently he has had responsibility for "alternative risk transfer markets". This has included experimenting with complex financial instruments, and products which combine investment elements with risk transfer to find new ways of protecting insurers' balance sheets.

Swiss Re signalled last week that it expected little change in strategy under Kielholz, pointing out that he had worked closely with Mühlemann before the changes. Mühlemann remains on the Swiss Re board and will become deputy chairman.

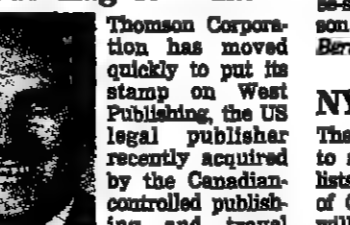
Ralph Atkins

Thomson Corporation has moved quickly to put its stamp on West Publishing, the US legal publisher recently acquired by the Canadian-controlled publishing and travel group. Thomson has merged West with its own extensive legal interests, creating West Information Publishing.

Andrew Mills, chief executive of Thomson's financial and professional publishing group, will also be West's chief executive. Brian Hall, formerly chief executive of Thomson's legal publishing division, has been named West's president. Hall joined Thomson last year after a decade as president of Shepard's, a Colorado-based legal publisher owned by McGraw-Hill. He will move to West's head office in Eagan, Minnesota.

Another Thomson executive, Dennis Beckingham (pictured above), has taken over as chief financial officer. Beckingham previously oversaw the finances of Thomson's financial and professional publishing group. West's former chairman and president, father and son Dwight and Vance Opperman, have been named chairman emeritus and chairman respectively of the new division. The

## West managers named



Opperman were among 200 employees-shareholders bought out by Thomson in the US\$3.4bn deal.

Bernard Simon

NYSE hires Belgian  
The New York Stock Exchange's push to attract non-US companies to its lists should get a lift with the arrival of Georges Ugeux on October 1. He will be group executive vice president, international, and become the fourth member of the office of the chief executive.

The new post underlines the exchange's ambitious global plans. Richard Goss, chairman, is fond of remarking that if only the top third of the 2,000 non-US companies qualified to list on the NYSE did so, it would double the exchange's market capitalisation from its current \$6,500bn.

Around 280 non-US companies have their shares listed on the Big Board, through American depositary receipts which are traded in dollars. However, the exchange has quietly dropped plans to begin trading in non-US companies shares in their home currencies. The intention had been to start a pilot scheme this autumn using the shares of up to 10 large international companies. But the plan has been put off, with no firm date set for a start.

Ugeux is a Belgian national with extensive banking and capital mar-

kets experience in Europe, having worked for Société Générale de Banque, Morgan Stanley's London office, and KKR Peabody in Europe. He is currently president of the European Investment Fund, the agency which backs small and medium-sized European enterprises. He also chairs Belgium's privatisation agency.

Maggie Urry

Changes at Macquarie  
Macquarie Bank, the only major Australian-owned investment bank, which is due to make its stock market debut in a matter of weeks, has named two joint deputy managing directors, under Allan Moss, managing director. They are John Caidon, who heads the bank's corporate finance division, and Richard Sheppard, who runs the corporate banking and corporate affairs group. Both have been with the bank for over a decade. Caidon joined 11 years ago, when Macquarie was still the old Hill Samuel Australia operation, while Sheppard has worked for the group since 1975. *Nikki Tail*

Keil quits Republic  
Jeffrey Keil, one of the closest associates of Edmond Safra, the secretive Swiss-based financier, is resigning as president of Republic New York Corporation. He is setting up an invest-

ment partnership which will invest in the financial sector of Israel. Safra, who controls a network of banks around the world, owns 70 per cent of Republic, a US bank holding company with assets of \$41.5bn. Keil, 53, joined Republic 25 years ago, and has been heavily involved in helping Safra build Republic into one of the top 20 US bank holding companies. Keil is leaving the group at the end of September and is setting up Keil Investment Partners, with the help of Lazard Freres.

There have been suggestions that Keil's departure may have been prompted by Republic's conservative growth strategy. Although Keil's skills are in investment banking, Republic's strength lies in retail and private banking on the back of its strong balance sheet. Keil says that he is leaving the safest bank in the world. "That is what Edmond wanted Republic to be, and I have strived to contribute to his vision." *William Hall*

Chay Kwong Soon, co-founder, president and chief operating officer of CREATIVE TECHNOLOGY, the computer sound board maker based in UNIVERSAL PICTURES. She will remain a director.

Richard Cavill, deputy chairman of SOUTHCOPT HOLDINGS - Vintner and industrial group, has retired. He will be replaced by Helen Lynch.

William Harper, chief financial officer of NATIONAL STEEL Corp of the US, has resigned.

Bruce Nakao has resigned as chief financial officer of Adobe Systems, to take the same role at PUMA TECHNOLOGY. Charles Geschke, president of Adobe, will take temporarily over Nakao's responsibilities.

International appointments  
Please fax announcements of new appointments and retirements to +44 171 878 3826, marked International People. Set fax to 'Fin'.

## INTERNATIONAL PEOPLE

## ON THE MOVE

Marcus De Wachter succeeds Jean Pouillet as secretary-general of the BELGIAN NATIONAL BANK. De Wachter worked in the office of former prime minister Wilfried Martens from 1986-92. She joined the central bank as an adviser in 1993.

Orsa Kinnawatt, 59, has become the first woman to head the MASS COMMUNICATIONS ORGANISATION OF THAILAND, which operates the Thai News Agency and radio and television channels. She succeeds Saengchai Sunthornwat, who was murdered in April.

Richard Gordon McKinstry rises from vice-president consumer marketing to president of TIME Inc. Atlantic. He succeeds Robert Crozier, who has left by mutual agreement with the board.

Bernard Menzinger, 59, becomes the first non-railwayman to chair INTERFRIGO (ICF) which acts on behalf of 29 European national railways. Menzinger, former chief executive of Danzas, the freight and

forwarding group, replaces Alain Poinssot. Wolfgang Gritz is stepping down as ICF's joint managing director, leaving Soren Rasmussen in sole charge of the group.

Rod Chadwick, the incoming managing director of PACIFIC DUNLOP, has named four executive general managers: Jan Veal (strategic direction); Philip Gay (finance); Paul Dainty (on secondment from Melbourne Business School - organisation development and learning); and Howard McDonald (Pacific Brands, with responsibility for a strategic review of the \$1.3bn consumer products group).

Martyn Lowry has been appointed director of European public affairs at BBS, the information technology services provider. He previously held a similar role at Apple Computer Europe.

Thomas Nystén, 57, joins the operative management board of METSA-SERLA, the Finnish forestry group, with respective responsibility for marketing and sales, and development of the packaging business. Christian van Niftrik, senior executive vice-president for converting business, retires on August 1, when Juhani

Saarela, 41, becomes head of the tissue division.

Alan McGilvray succeeds Herbert Brenneiser as managing director of BAYER (India), part of the chemical and pharmaceutical group.

Gil Harries has been appointed vice-president and general auditor of LUCENT TECHNOLOGIES, one of the units formed on the break-up of AT&T. He is currently a partner of Coopers & Lybrand.

Barbara Mason rises to senior vice-president, retail marketing at Canada's SCOTIABANK. She was most recently vice-president retail marketing.

Edmond Belak becomes head of HILL AND KNOWLTON's US financial communications practice. Jeff Zilka becomes deputy director.

Arthur Lippert, appointed chairman of BAT International on April 20, resigned on June 13. BAT says it is seeking a qualified motor industry executive to replace him.

New Zealand brewer LION NATHAN has appointed Tony Van Kralingen, previously director of operations of South African Breweries, as head of its Australian operations after the departure of Leon L'Etullier.

Percy Allan, 49, finance director of BORA, the Australian energy and building materials group, is leaving after two years in the job. He is being replaced by Brian Hill, formerly with biscuit maker Arnotts.

Kevin Dougherty becomes vice-president, group insurance for Canada at SUN LIFE ASSURANCE COMPANY OF CANADA. Marcel Gingras becomes vice-president, individual insurance for Canada and Dikran Ohannessian, vice-president, business practices.

Roger Hay, chief financial officer of Titan Corporation, based in California, is leaving to become chief financial officer for PINNACLE MICRO.

Mike Fernandez, 38, formerly with Eastman Kodak, has become vice-president of public relations for US WEST COMMUNICATIONS.

Rodney Linford succeeds George Kersels as general manager for space flight programmes at MCDONNELL DOUGLAS.

Albert Luke becomes staff vice-president for strategic development at DRESSER INDUSTRIES, the Dallas-based energy resources group. He was previously vice-president,

alliance operations at M.W. Kellogg, Dresser's engineering and construction subsidiary.

Diane Cairns becomes senior vice-president, production at UNIVERSAL PICTURES. She joins from International Creative Management.

David Brubaker becomes director of south-east Asia manufacturing at EASTMAN KODAK.

Joy Thoma has been named senior vice-president of planning for the Asia Pacific region at MASTERCARD INTERNATIONAL.

Dieter Wissler is to head Novartis's German unit, following the merger between Ciba Geigy and Sandoz.

Khalid Ismail is to chair the JARDINE MATHESON Group in Malaysia, with a seat on the Asia Pacific regional board of Jardine Matheson Holdings.

Ismail recently retired as secretary general of the Malaysian civil service.

Paul Shedd becomes president and chief executive of HJ HEINZ of Canada and chief executive of Heinz Bakery Products. He replaces John Crawshaw, who will head Heinz's Pacific Rim businesses.

Lee Suan Yew has resigned from the board of HOTEL PROPERTIES in Singapore.

Chay Kwong Soon, co-founder, president and chief operating officer of CREATIVE TECHNOLOGY, the computer sound board maker based in UNIVERSAL PICTURES. She will remain a director.

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## "Closer look at Bacon

William Packer visits an important retrospective exhibition in Paris

Francis Bacon died four years ago at the age of 82, though by the apparent vigour of his work to the last, he hardly seemed so old. Yet he had been a central, if singular figure in British art for almost 50 years, and already a marked and coming man for some time before that.

Such people are well able to sustain their own myth, and Bacon evidently relished and cultivated that singularity. He was clearly the most famous and internationally successful British painter in his lifetime but, more than that, he was distinctly the odd man out - a figurative painter, symbolist, surrealist and expressionist in a world of cooler abstraction and conceptualism, and living a life to match.

But as time goes on, so we begin to see his oeuvre from first to last, despite its contradictions and shifts of emphasis, as all of a piece. He may have destroyed most of his early work and stopped painting for a while: he may seem consciously to have set his mature career and reputation on the still, extraordinary triptych of 1944, "Three Figures at the Base of a Crucifixion", by which he marked the moment he began to paint again and first came before a wider public. Even so, enough of the earlier work survives and, piece by piece, comes back into the light, to qualify that self-presentation.

Artists have their own position, which is not necessarily ours. They are not always the best judges of their own work, standing so close to it, perhaps, as to see the trees but not the wood. The true artist will always do more than he knows, let alone intends, and Bacon himself insisted upon the primary importance to the painter of chance and intuition and pure luck. "That is why real painting is a mysterious and continuous struggle with chance", he wrote in 1983.

Three years ago at Venice the critic David Sylvester effectively reintegrated Bacon's work after 19% with that of the previous 20 years or so, testing the view that

Bacon's greatness rests on that earlier work. Now, in an ampler selection for the Centre Pompidou, he throws that question open again, and makes it anything, and perhaps unconsciously, the further point that Bacon was never at all the eccentric and isolated figure of received opinion.

Which brings us back to the young Bacon of the 1930s and his work of the time. Few as the examples are, they are more prominent here than ever before. Here is the Bacon of the avant-garde circles of Moore, Sutherland, Pasmore and de Maistre, the Bacon who turned down Roland Penrose's invitation to show in the Surrealist Exhibition of 1936. And here is the small "Crucifixion" of 1933, that Herbert Read reproduced alongside a surreal and grotesque Picasso "Baigneuse" in his book, *Art Now*.

Here then, in the common stock of 1930s surrealism, lie the origins of that "Crucifixion" triptych of 1944, and all the disembodied figures, gaping mouths, bared teeth, screaming Pops, that were so soon to follow. But there are also two quieter, more ambiguous paintings of about 1938, an "Interior of a Room" and "Figures in a Garden", that are no less significant. For already they describe the shallow, angular pictorial space that was to be Bacon's device of a lifetime - the open space-frame, the enclosing screen. And with as yet no idiosyncratic horrors to register, they sit happily at the centre of cosmopolitan modernism, looking to Matisse and Braque on the one hand, and to incipient British neo-romanticism on the other, to Sutherland - with whom a creative association lasted throughout the 1940s - Carl Richards and Eileen Agar.

Thus primed, the comparisons come thick and fast, and not necessarily one way. The crouching and sitting figures of the later 1940s summon up Magritte; a grey figure study (1957) suggests Giacometti; a mountain landscape (1956), David Bomberg. And such current im-



Dark humanism: 'Portrait of George Dyer Riding a Bicycle', 1966, by Francis Bacon

maries as Punks, Basquiat, Clemente and Sella are all prefigured in the images of the 1950s. To say as much takes not a whit away from Bacon's interest, originality or importance as an artist, but only from that supposed isolation.

Bacon remains unquestionably a remarkable and major artist, and the better for the loss of his splendid isolation. His faults we can live

with - his feeble drawing more than made up for by the often exquisite delicacy and subtlety of his touch as a painter. The later works remain for me a problem, more for the over-blown scale on which they are too often set, which exposes the drawing and over-extends the paint upon the surface, than for their actual imagery. The sets of small portrait studies, close

and intense, early or late, are as strong as ever. And the heavy cloud of his bleak, dark, despairing humanism hangs over it all.

Francis Bacon Retrospective: Centre Georges Pompidou, Paris, until October 14, then on to the Haus der Kunst, Munich: exhibition organised by the Centre Pompidou in collaboration with the British Council.

## Weird stuff - but first rate

Ian Shuttleworth is tangentially challenged by Sam Shepard dramas

For three weeks, Battersea Arts Centre has become a temple to America's greatest living exponent of oblique drama, Sam Shepard. His face (or at any rate the left half of it) gazes down from walls; the café and bar play a selection of Shepard-programmed music ranging from Eric Dolphy to his former New York cohort Fatti Smith and Ry Cooder's soundtrack to *Paris, Texas* (co-scripted by Shepard); and a number of late night shows are presented in addition to the three main evening productions.

The main performance base hosts *States of Shock*, premiered off Broadway in 1991 and an excellent introduction to Shepardian arcana. Into an ordinary diner come a traumatised wheelchair-ridden young man and a colonel in pompously over-decorated dress uniform. Their meal is interspersed with, and finally overridden by, the colonel's desire to force young Stubbs (a remarkable performance by James Done) to relive the battle in which the colonel's son was killed.

As the 70-minute show progresses, fragments of truth emerge, but Shepard leaves it to the audience to assemble these into a cubist picture of a family in denial. At the next table, the difficulties of life and Mrs Middle-America draw indirect parallels with the tensions and complexities of the nation as a whole. Behind a gauze at the rear of the stage, a couple of percussionists are let loose periodically, though not often enough to create the oppressive sense of distant artillery fire which director Michael Kingsbury intends. This is weird stuff, to be sure, but first-rate weird stuff.

Studio Two's 55-minute show, *Suicide in B Flat* (1978), is if anything even more tangential. Director Andrea Brooks actively follows Shepard's advice not to try to "solve the play". That task is left to a couple of investigators (Ian Barnes and the fine Shaun Prendergast), and it is one at which they inevitably fail. Is composer Niles really dead? If so, why and how? If not, whose corpse, its face blown off, have they discovered in his apart-

ment? In either case, what kind of limbo are Niles and his childlike companion Paulette inhabiting, that they can half-kill the investigators at close range without being noticed?

Don't ask me... or Shepard. What matters are the tensions and contrasts between the men in suits, a couple of jazzers who worked with Niles and the ethereal duo - the interplay of mentalities, reason versus instincts and several conflicting instincts at that. It is as if the only way to approach profundity is through a partial and hallucinatory modern fable: it is also the closest I have seen to conveying the tangled spirit of modern jazz in drama.

*A Lie of the Mind* (1985) in Studio One is the only two-act play. Its narrative is more linear and bears a closer relationship to reality, but within this framework sit two families in which each member has his or her own quirks and dysfunction. After Jake has left his wife Beth for dead on a highway, he retreats into psychosis in his own home whilst she slowly recovers from severe brain damage in the warped bosom of her family. Melissa Chalmers is terrific as Beth, her elliptical outbursts serving as the principal vehicle for Shepard's authorial comments on the human mind and heart. The patterning of the play is a little too deliberate, with motifs being picked up from scene to alternating-family scene and great care taken to display the central lie in each character's mind. Be it a concept of family, love or morality.

For this reason, although Toby Reiss's production (with its largely American cast) is every bit as tight and intelligent as the other two, *A Lie of the Mind* is somehow less satisfying: the meaning is delivered on a platter rather than our having to track it down through snags of bewilderment. Shepard is a writer for whom the word "difficult" is a term of approval, and the work on show at Battersea ably demonstrates that clarity and directness are not at all the same thing.

All three shows at BAC, London SW11, until July 20 (0171-2232223).

## Ballet in Amsterdam/Clement Crisp In great rapport with Balanchine

kick-boxing of William Forsythe and his devotees.

The Dutch ensemble looks fine in Balanchine, and Balanchine looks fine in their performance. It is a tribute to Wayne Eagling, DNB's artistic director, that the dancers have so assured a manner for this repertoire: I sense that he has given a clearer edge to their style. It is also a tribute to Karen von Aroldingen, grand Balanchine dancer who has coached the present season.

It is no less a tribute to the DNB orchestra, under Paul Connolly and Andrew Mogrelli, that the musical floor of the dance was so polished, so springy. The dance grew, as it must with Balanchine, from an alert tension between stages and sit. Not least of the rewards in these evenings was that the stage looked so alive, its space so vital. The design for six ballets amounted to four chandeliers for *Theme and Variations*. Costuming, except for the same ballet's stylish tutus and jinkies, was of the simplest, set against a cyclorama. The company could tour with minimum decor-

ative freight to maximum artistic effect. How unlike the Brobdingnagian language of troupes and repertoires nearer home, burdened with the vulgar disguises and knick-knackery that, even so, do not obscure the shoddiness and indecision of the dance.

Balanchine's choreographies, stripped to their essence, spoke during these two evenings with a sublime honesty. They are like missionaries, for Balanchine's work now feeds companies round the world, and his art seems almost that of a diaspora - scattered in this instance from the former New Amsterdam to old Amsterdam itself.

In the first evening, with *Serenade*, *Agon*, *Symphony in Three Movements*, I renewed acquaintance with a company much livelier than when I last saw it. A strong pulse to the dance, the right sense of dynamism - no soft edges, save properly so in *Serenade* - and something both quick-footed and joyous in the

Stravinsky symphony. In Nathalie Carle, the central woman in *Agon*, a dancer of potent temperament who shaped the pas de deux with Boris de Leeuw impeccably; in Enrichetta Cavallotti, a dancer whose every step in the symphony was pungent, fascinating.

The second programme began with *Theme and Variations*, Balanchine's tribute to the old Petersburg ballets. With a Petersburg artist, Larissa Lezhnina, at its heart, the resonances of the place were clear. Lezhnina was a young Kirov star whose Aurora was a golden creation. She has been with DNB for the past few years, and has grown into a radiant, assured ballerina. Her serene style, the way in which the dance flows through the torso and is crowned by the arms, is ideally seen here: the choreography glows.

In Balanchine's late and teasing setting of Hindemith's *Kammermusik No. 2* - a chorus of eight boys surround two dancing, dazzling women in ungainly but thrilling games - and in the staggering *Violin Concerto*, the Dutch ensemble and its admirable principals gave disciplined, vital accounts, making grand sense of masterworks. They had been nourished by the dance. And so, gratefully, had we.

The Dutch National Ballet Balanchine season continues at Amsterdam's Muziektheater until July 13.

## The Doctor of Myddfai

David Murray reviews Peter Maxwell Davies' new opera

Sir Peter Maxwell Davies has written a new work for the Welsh National Opera, *The Doctor of Myddfai*, which he suggests may be his last opera. For once he has chosen another person to be his librettist - David Pountney, a renowned opera-producer as well as a skilful translator; together they hit upon a suitable Welsh legend, and devised a modern parable to enclose it. The mysterious story employs a large cast, and contrives to include some hymns in Welsh for the sake of the WNO's famous chorus.

The Cardiff premiere last Friday is to be followed by two performances in Llandudno (this Wednesday and Saturday), and in the autumn the WNO will tour it through its usual parts of call. The Cardiff audience faced up to it rather well: puzzled, reasonably enough, at the end of the first act, but heartened by the overt drama of the second - and the opera is quite compact.

Some 800 years ago, it seems, the physicians of the little village of Myddfai were famous for their herbal lore. They acquired it, so the legend goes, with the help of a beautiful woman who rose from a lake,

but was fated to return there if and when her mortal husband should strike her three times, as in due course he did. As the opera begins, the latest Doctor of Myddfai is recounting the story to his daughter; at the end she has stepped into his role.

The time is the near future, when Wales - already denied its name - is a fringe outpost of a bureaucratic European empire. A plague is raging, though officialdom denies it: anyone who is struck in the rain develops a horrible, spreading bruise which invariably proves fatal.

The Doctor tries to persuade the lofty Ruler to acknowledge it, and succeeds at last only by striking him, with the usual result. While the Ruler is brought face to face with his own mortality, the Doctor becomes carried away by his own aura as a great healer. You may conjecture about the rest.

Maxwell Davies' score is pithy and striking. His penchant for hooking brass and a great variety of percussion is risky for the words, particularly in the first act, and there is sometimes a sense that the

orchestra is making busy patterns of its own which are only obscurely related to the action; but the second act settles nicely into strongly contrasted numbers and scenes, and builds up a considerable head of theatrical steam.

There is a taut, outstanding performance by Paul Whelan as the Doctor, always superbly audible over the churning orchestra, and a noble, disillusioned Ruler from Gwynne Howell. Why, exactly, the Doctor should appear as a woman to deliver the *coup de grace* remains a mystery, but Whelan carries it off with panache.

Anyway, I always suspected that the stately, long-legged woman who haunts Pountney's productions were men in drag, so the twist came as no real surprise. His production here is inclusive as usual, in Su Hunsley and Donna Muir's bold, fascinating designs. Lisa Tyrrell scores a bright-voiced success as the daughter; all the smaller parts are energetically taken, the chorus swings fervently into its hymns, and Richard Armstrong has trained the orchestra to a confident pitch.

The action leaves tantalising loose ends, the better to provoke our imaginations.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

**DANCE**  
Het Muziektheater  
Tel: 31-20-5518117  
● Het Nationale Ballet: perform Balanchine's *Serenade* to music by Tchaikovsky, *Agon* to music by Stravinsky and *Symphony in Three Movements* to music by Stravinsky. Part of the Balanchine Summer Festival, 8.15pm; Jul 9, 12

**EXHIBITION**  
Rijksmuseum Tel: 31-20-6732121  
● South Wing: The wing reopens after three years of renovation - 18th and 19th century paintings, Asian art, costumes and textiles in 18 new rooms; to Sep 22

### AVIGNON

**FESTIVAL**  
Festival d'Avignon  
Tel: 33-90 82 67 08  
● Festival d'Avignon: theatre

festival established by Jean Vilar in 1947 in order to provide a context for theatre-going different from that of the Paris boulevard theatres. The festival is always held in July, when commercial and state theatres in France are closed.

With its increasing popularity, it has opened out gradually to embrace other genres such as dance and music. This year the 50th edition is held. This year's theatre highlights include Aimé Césaire's *La Tragédie du Roi Christophe*, directed by Jacques Nichet, and *La Nuit du Théâtre*, which will be broadcast live on French television (Jul 28). Other highlights include performances by Bill T. Jones and the Arnie Zane Dance Company, featuring choreographies by Bill T. Jones, the celebration of the 20th anniversary of the Centre Acanthes, with the co-operation of Pierre Boulez, Henri Dutilleul, György Ligeti and Iannis Xenakis, and the exhibition *Deux Palais pour Rodin* in the Palais des Papes and the Petit Palais, devoted to Rodin; from Jul 9 to Aug 3.

### BERLIN

**EXHIBITION**  
Berlinische Galerie - Martin-Gropius-Bau  
Tel: 49-30-254860

● Anne Rattoiwski: Eine vergessene Künstlerin der Novembergruppe: exhibition devoted to the work of the German painter Anne Rattoiwski, a member of the Novembergruppe, a movement of Expressionist artists formed in Berlin in 1918. The display

includes still life and portraits; to Oct 13

### BOSTON

**EXHIBITION**  
Museum of Fine Arts  
Tel: 617-267-8300

● Gauguin and the School of Pont-Aven: this exhibition features 80 oil paintings, 30 works on paper and four sculptures, including works by Gauguin, Bernard and 18 other artists associated with Gauguin's presence in Brittany; to Sep 15

### BRUSSELS

**EXHIBITION**  
Musée Communal d'Beaux-Arts  
Tel: 32-2-5119084

● Groeninge Collection: exhibition of works from this collection of contemporary art, assembled over the past 10 years by a group of Belgian collectors. The collection includes works by Richter, Panamarenko, Fabre, Frère, Carlier, Oursler, Keith Haring, Allan MacCollum, Mike Kelley, Sol LeWitt and others; to Jul 28

### EDINBURGH

**EXHIBITION**  
Scottish National Gallery of Modern Art  
Tel: 44-131-5589921

● Alberto Giacometti 1901-1966: the first significant exhibition of Giacometti's work in Britain since

the retrospective held at the Tate Gallery in 1965. The exhibition comprises some 80 sculptures, 30 paintings and a selection of drawings. These include sketches and paintings made by Giacometti in his youth, surrealist sculptures of the early 1930s and the celebrated series of tall standing figures begun immediately after the second world war; to Sep 22

### LONDON

**EXHIBITION**  
British Museum  
Tel: 44-171-6361555

● Vases and Votives: Sir William Hamilton and his collection: exhibition focusing on the 18th-century antiquary, connoisseur and natural historian; to July 14

### MUSICAL

**Abnerson Theatre**  
Tel: 1-213-972-0700  
● Carousell: by Rodgers and Hammerstein. Directed by Nicholas Hytner and performed by The Royal National Theatre; Tue - Fri 8pm, Sat 2pm & 8pm, Sun 2pm; from Jul 10 to Aug 25 (not Mon)

### NEW YORK

**EXHIBITION**  
Whitney Museum of American Art  
Tel: 1-212-570-3600

● Shigeo Kubota: exhibition featuring a new installation of metal, mirror, video, and motorized sculptures, created between 1992 and 1996 by Shigeo Kubota. The

sculptures - some first shown at the 1993 Venice Biennale - include "Bird II", "Windflower", "Video Flower", "Windmill II", and "Video Tree"; to Aug 25

### PARIS

**EXHIBITION**  
Centre Georges Pompidou  
Tel: 33-1-44 78 12 33

● L'informe: exhibition focusing on the history of Modernism. The display includes works by Pollock, Duchamp, Fontana, Smithson, Warhol, Hesse, Dubuffet, Rauschenberg and others; to Aug 26

### SAN FRANCISCO

**CONCERT**  
Louise M. Davies Symphony Hall  
Tel: 1-415-864-6000

● Hooray for Hollywood: a celebration of Hollywood film scores, featuring the San Francisco Symphony with conductor Emil de Cou, Broadway and film actor Joel Grey, and dancers Evelyn Cisneros and Stephen Legate. Opening night of the San Francisco Symphony Pops; 8pm; Jul 12

### SYDNEY

**OPERA**  
Drama Theatre, Opera Theatre, Playhouse  
Tel: 61-2-250-7127

● Lucrezia Borgia: by Donizetti. Conducted by Patrick Summers and

performed by the Australian Opera. Soloists include Nelly Miricioiu, Suzanne Johnston, Gregory Tomlinson and John Wagner; 7.30pm; Jul 9, 13

### VIENNA

**EXHIBITION**  
Graphische Sammlung Albertina  
Tel: 43-1-534830

● Von Schiele bis Wotruba. Arbeiten auf Papier 1908 bis 1938: exhibition of approximately 150 works on paper, created by 58 Austrian artists between 1908 and 1938. Artists represented include Gustav Klimt, Egon Schiele, Oskar Kokoschka, Alfred Kubin, Max Oppenheimer, Herbert Boeckl, Albert Paris Göttsch, Max Weller and Fritz Wotruba; to Aug 18

### WASHINGTON

**EXHIBITION**  
National Portrait Gallery  
Tel: 1-202-357-1915

● 1848: Portrait of the Nation: celebrating the 150th anniversary of the founding of the Smithsonian Institution, the exhibition describes, in illustrations, manuscripts, clothing and sculpture, the political, cultural and social character of America in 1848 by focusing on leading figures of the time; to Aug 18

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18.00 Financial Times Business Tonight

## COMMENT &amp; ANALYSIS



Martin Wolf

## The fiscal trap for Labour

The party has dropped most of its seriously wrong solutions to the economy's problems but its new ideas are unlikely to lead to improved growth

Mr Boris Yeltsin's success shows that anything is possible in politics, even resurrection of the electorally dead. But the overwhelming odds are that Mr John Major will not manage to return to life in a similar fashion. So how might the economy fare under Mr Tony Blair's New Labour? Would he increase the economy's long-term rate of growth? Would he lower the underlying rate of unemployment? The answer to these questions has to be no.

Labour may not have the right answers, but it has at least dropped most of the seriously wrong ones. The result is a split personality. "New Labour, new life for Britain", the proto-manifesto published last week, may condemn Tory misrule, but its authors also accept large chunks of Conservative thinking. On macro-economic policy, for example, the document claims that "we will set strict rules on spending and borrowing". Moreover, "the priority must be stable, low-inflation conditions for long-term growth".

It sounds most attractive. Unfortunately, Mr Gordon Brown, Labour's putative chancellor of the exchequer, will find himself facing fiscal difficulties from the very start. Considerable effort will be needed merely to control the growth of fiscal deficits and debt, as today's revised forecast from the Treasury should make clear to anyone who reads between the lines.

Mr Bill Martin, chief economist of UBS and ever a thought-provoking maverick, has argued that the public sector borrowing requirement, far from dwindling away as Mr Kenneth Clarke, the chancellor, forecast last November, could remain at an unacceptably high 4 per cent to 5 per cent of gross domestic product for the rest of the decade. This is not implausible. All Mr Martin does is assume that public spending and GDP grow in line with historic trends.

What has already happened since Mr Clarke claimed to

have solved the problem of the public finances in his Budget of November 1993 suggests this gloomy view could well be right. As the chart suggests, the rapid economic growth of 1994 improved the public finances by more than had been expected in November 1993. Since then things have been all downhill.

The outcome for the PSBR in 1995-96, at 4½ per cent of GDP, must be compared with the 4 per cent forecast last November and the 3 per cent forecast in November 1994. In its latest forecasts, Goldman Sachs suggests the 1996-97 outcome will be close to 4 per cent of GDP, up from the 1½ per cent forecast in November 1994, while the outcome for 1997-98 will be about 3½ per cent of GDP, up from the ½ per cent forecast in 1994.

What has gone wrong? Part of the answer is a shortfall in receipts from taxation. Another has been disappointing economic growth. Last November's forecast of 3 per cent growth in 1996 is likely to be half a percentage point too high and it follows an even larger exaggeration of 1995 growth in the forecast of November 1994. There are also the tax cuts of last November, which will reduce revenues by

more than half a percentage point of GDP in 1997-98.

For Labour, the problem is worse than it appears to be, partly because there are likely to be yet more tax cuts in November, but principally because the government's forecasts rest on implausibly tight control over public spending. In November 1995, for example, Mr Clarke forecast that government spending would, to all intents and purposes, not rise at all between 1995-96 and 1996-97. It stretches credulity to accept that even the Tories would achieve this. It seems inconceivable that Labour will - or would want to.

The fiscal cupboard is bare. Under plausible assumptions, as Mr Martin argues, the ratio of the fiscal deficit to GDP may have to be cut by 2 percentage points, amounting to some £16bn a year - the equivalent of 8p in the pound on the basic rate of income tax. And even this would finance real growth of public spending after 1997-98 only in line with its long-term trend of some 1½ per cent a year.

The attractive ways out of the fiscal trap are, of course, faster growth and lower unemployment. Gloomy forecasts, such as Mr Martin's, assume

economic growth will be only 2 per cent a year from next year, in line with the long-run trend since 1979. Could things be better? Labour's answer is a "medium-term growth strategy" which "will encourage long-term investment and increase sustainable growth". Will New Labour's new ideas lead to brighter growth? There are two big reasons and plenty of little ones for doubt.

The big reasons are, first, that raising an advanced country's rate of economic growth seems to be hard. Second, so many different policies have already been tried. Yet the UK's rate of growth has been amazingly stable: the economy has grown at an average compound rate of close to 2 per cent since 1820; since 1900, the rate of growth has been the same; since 1945, it has been a little faster, at 2½ per cent; but it has been back to 2 per cent since 1975. As Henry Ford would have said, the British can have any rate of growth they want, so long as it's 2 per cent.

Is a Treasury under Mr Brown going to make the difference? Partnership between private enterprise and the government is one of New Labour's buzzwords. This is a tricky idea. Partnership can too easily mean public funding of unprofitable activities.

Improving skills is the other: "We will not succeed unless our people are equipped to do so. That means skills and education." This phrase is followed by a commitment to guaranteeing nursery education for all three- and four-year-olds. By the time these children are revolutionising the British economy, Messrs Blair and Brown will be pensioners.

Add the various notions together and they still do not amount to much. Handled carefully, they would make things worse. Handled carelessly, they just might make them a little better.

In one respect, they seem certain to make things worse. That exception is unemployment. Here there is a gimmick

and a bad idea. The gimmick is a one-off "windfall levy" - a retrospective tax to you or me on the "excess profits" of the privatised utilities to fund job programmes for long-term and youth unemployment.

The bad idea is the minimum wage. It is a bad idea because it is bound to hurt employment without benefiting the poor. As the Institute for Fiscal Studies has noted, the largest gains accrue to households in the middle of the income distribution, because most of those who receive low wages are second-ary earners, either in a couple or children living with their parents. As for the effect on employment, that would depend on the level of the minimum and the extent to which higher-paid workers would restore their differential. Both are unknown.

Evidently there exists a minimum wage so low that it would make no difference, good or bad. It would have to be very low indeed. A minimum wage of £3.35 an hour, for example, would directly affect 32 per cent of part-time women and 40 per cent of part-time men, though only 18 per cent of full-time women and 8 per cent of full-time men. A minimum wage of £4.15 an hour (80 per cent of the median male wage) would affect 55 per cent of part-time women and 54 per cent of part-time men. Could the unspoken purpose of these proposals be to curtail part-time work, most of which is done by women, in order to boost full-time employment opportunities for men?

Will Labour raise taxes? Probably yes. Will it increase the underlying rate of growth and lower the underlying rate of unemployment? Probably not. Could the economy perform in line with its long-run trend rate of growth under Labour? Yes. But what Mr Blair must hope is that there is enough slack in the economy to give a good period of above-trend growth. It just might be there. It would be rash to assume it.

### Personal View - Frank Vogl

## Customers come last in global air links

Airline alliances work against the interests of passengers - and of their safety

I had booked my flight from Brussels to Boston on Delta Airlines and my ticket said Delta as well. But as I walked down the boarding ramp, I knew something was wrong. The stewardesses were not in Delta uniform. The logo everywhere was that of Sabena, the Belgian airline that is in an alliance with Delta, Austrian Airlines and Swissair.

It was an old European Airbus, not a spanking new Boeing 777 of the kind United Airlines used to fly me to Europe. The legroom in business class (my round-trip ticket to Europe cost more than \$8,000) was so sparse it was a pleasure to fly onwards to my final destination from Boston in the comfort of USAir economy class.

The steak that was served seemed as old as the aircraft. There were none of the individual video sets that I might have enjoyed in British Airways business class, or the sleeper seats provided by Continental.

This dispiriting experience was yet another example of the consequences of airline alliances, a sign that airlines often put the short-term interests of their shareholders ahead of those of their customers.

Once PanAm flight 1 could jet you around the globe. But today no airline has global coverage to all the destinations that people want to go to in ever greater numbers.

To be competitive, however, airlines have to suggest to consumers that they offer global coverage. As a result, they are forging ever-deeper strategic alliances with each other - such as those between Delta and its new European buddies, British Airways and American Airlines, or Northwest Airlines and KLM, the Dutch carrier.

It is all part of an obsession among airline bosses over market share - they all want more of it. Competition is exacting and it might be argued that there are too many companies now flying the "friendly skies". No airline believes it has enough of the global market and all fear they will be losers unless they swiftly secure alliances.

For the customer, this can mean unpleasant surprises of the sort I experienced on my return flight from Europe. But it also raises questions about safety standards, particularly in the wake of the ValuJet crash in Florida.

The US Congress is about to hold hearings into airline safety, and experts are going on US television and radio programmes to warn people to fly only on airlines that the authorities have clearly declared as safe. But, what can passengers do if they buy a Northwest Airlines ticket and discover they are flying on a KLM aircraft that is not subject to Federal Aviation Authority controls?

The Dutch authorities that regulate KLM may be better regulators than the Americans. But can the same be said for most other national authorities which licence the airlines increasingly joining the widening nets of global airline alliances?

The answer is almost certainly no. The reality is that in the race for global market

The airlines are willing to take risks with customer standards in the race for global market share to fend off potential competitors

share to fend off potential competitors and secure the tremendous profits that globalisation can bring, the airlines are willing to take risks with customer standards.

They are willing to surprise passengers about the airline they will fly on, the quality of in-flight services they will receive and the standard of ground safety/maintenance service that the airplanes may be subject to.

To overcome this problem the world's leading and best regulated airlines would have to insist that their partners all met very high international standards. The tests would range from the basics of safety to the extremes of business-class and first-class luxury. Meeting such tests, at least in the medium term, would probably be seen as too expensive for the airlines in a hurry to offer the best global networks of alliance-driven international routes.

The competitive pressures of globalisation are mounting in almost all business sectors, forcing managements to consider trade-offs. Do they place shareholder value above customer value? Do they assign lower priority to concern for their employees as they cut costs? And do they try to do an end-run around safety regulations just to make a few additional dollars?

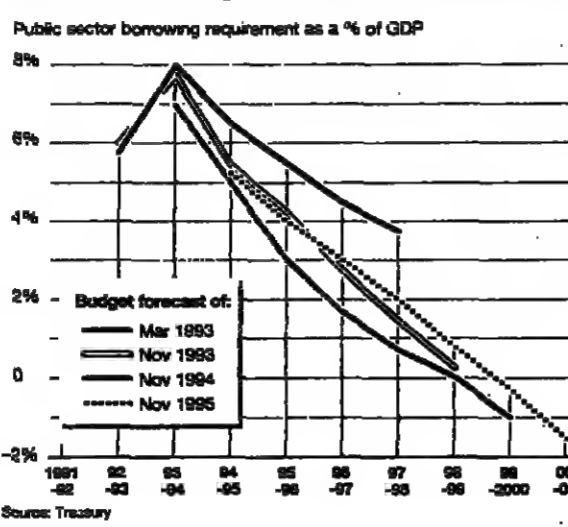
To place shareholders above all other interests is a short-term strategy that can only end badly. Delta, by tricking me into a Sabena flight, is no longer my airline of preference and I have more choices today than ever.

If the partner of a leading world airline crashes, the damage to the latter's reputation will be enormous - and the costs to it very high.

The strategists of new global alliances, in all business sectors, should start taking greater account of such considerations.

The author is president of Vogl Communications of Washington DC, a strategic management consultancy.

How the Treasury forecast the fiscal deficit



## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be sent to: +44 171-873 5538 (please set fax to "line"), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

### Remember EU's fourth freedom

From Mr David Martin MEP.  
Sir, In his Personal View (July 2), Onno Ruding rightly argues that the European Union has "... in most respects realised the goal of the single internal market - with its attendant free movement of goods, services and capital - as envisioned by the Maastricht Treaty in 1992". I do not know if it was intentional, but it is pertinent that the former finance minister of the Netherlands missed out the fourth of the four famous freedoms - the freedom of movement for labour, or citizens, within the single internal market.

The single market will never work properly unless we have the freedom of movement for

labour to work within the European Union. The European Court of Justice last week came to the aid of teachers, musicians and other European Union citizens trying to get work within the Union.

In three judgments it ruled that Belgium, Greece and Luxembourg broke European laws by preventing non-nationals from holding public sector jobs in fields ranging from education to post and telecommunications.

Although the European Union's founding treaties guarantee free movement of workers, they also provide an exemption for public sector workers. However, recent rulings of the Court of Justice have meant only jobs involved

in making public policy or safeguarding the interests of the state can be reserved for nationals. Teachers, people working in public utilities or healthcare and transport should not be included.

Freedom of movement for workers must be a basic right under European Union law and is just as important as freedom of movement for goods, services and capital. Last week's ruling is a significant step towards freedom for EU citizens to work in other member states.

David Martin, vice-president, European parliament, 4 Lathian Street, Dalkeith, Midlothian, UK

### No need for new status

From Mr Jack Wigglesworth.  
Sir, Another problem: another instant solution. But the challenges facing member-run exchanges - such as the London Stock Exchange and the London International Financial Futures and Options Exchange (LIFFE) - would not be removed by turning us into plc's with a broader range of shareholders (Lex, July 1).

On the contrary, an exchange can only be successful if it serves the investing public. An exchange's member firms can only make profits if they meet those same needs. So giving control to members allows swift responsiveness to the needs of the market. Being a plc with a different set of shareholders and interests could only be a distraction. Control by members is also more consistent with our regulatory role under the Financial Services Act 1986 - a role which we take extremely seriously and where direct member input is vital.

LIFFE has experienced more than 40 per cent growth a year since 1982 to become the largest exchange of its kind outside Chicago - proof indeed of the ability of member-run exchanges to act commercially and exploit market opportunities.

Jack Wigglesworth, chairman, London International Financial Futures and Options Exchange, Cannon Bridge, London EC4A 3EX, UK

### Sterling exit

From Mr Louis de la Nouille.  
Sir, Philip Stephens ("A shadow of itself", July 5) refers to "sterling's election" from the EU exchange rate mechanism. In this he is mistaken: sterling was never ejected from the ERM. Should he have any doubts on this, he would do well to refer to his own recently published book *Policies and the pound*, where (on page 261) he gives a brief, but presumably accurate, account of the meeting where "the decision was taken to pull out of the ERM". The correct description of what happened, which should also clear up the confusion in his mind, would seem to be auto-ejection.

Louis de la Nouille, 12 Rue du Faubourg Poissonnière, Paris 75010, France

### Time to end outdated farce

From Mr Charles Wyatt.  
Sir, Well played, Joe Rogaly. I read his piece for the destruction of the UK's unpleasant and inefficient Ministry of Agriculture Fisheries and Food ("End of the line for Maif", July 6/7) while watching Michael Atherton score his century - and I don't know which I enjoyed more.

For longer than most can remember, Maif has formed the third corner of a cosy triangle with factory farmers and agrochemical manufacturers to the detriment of the countryside and the housewife's purse.

Ministers have come and gone without trace. Few had any knowledge of farming when coming to office, even fewer knew much more by the time they left, and virtually none exerted any significant

controls over their officials. Maif, as run by these unelected officials, now seems to be answerable to nobody. Having struck a mortal blow to our fishing industry, it is bringing our beef industry to its knees. While it ponders its next target it attempts to justify its existence with more mad schemes. Blood tests on sheep for diseases not recorded on these shores for many a year is one of the latest. About as sensible as testing all dogs for rabies, or paying farmers to grow weeds.

Let's hope the FT forms up behind Mr Rogaly to campaign for an end to this outdated farce.

Charles Wyatt, Hurst House, Wittersham, Kent TN30 7EL, UK

### The reality of democracy for Russians

From Dr Marek Laskiewicz.  
Sir, The key point about the Russian presidential election is that it shows the high support for communists. This confirms what I have consistently said since June 1991 - unlike all the experts, who blow with the wind - and what I have explained in *Russia and World War III* (ISBN 1871771 02 1), namely that war (possibly

nuclear) may still occur. For Russia may react against an unsuccessful capitalist democracy and may support a revanchist neo-communist dictator.

So, while the Anglo-Saxons believe democracy is wonderful, what the Russians see is disorder, territorial disintegration, and poverty, albeit partly masked by aid.

And while the world believes that perestroika was a "liberal" reform, it was in fact a failed "hardline communist" one.

The experts were and are wrong. No-one should be complacent.

Marek Laskiewicz, 39 Queen Elizabeth's Walk, London N16 5UG, UK

### All in a name

From Ms Fiona M. Schneider.  
Sir, Having lived in Germany for seven years, it now looks as if the difficulties with my forename are at last set to end ("Deutsche Bank introduces Fiona", July 4). Regrettably, I fear, as I would rather be known as Viola, Fiola or Vesona than Frankfurt Inter Bank Overnight Average.

Fiona M. Schneider, Burgstrasse 8, D30826 Garbsen, Germany

B. Gerald Cantor

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## FINANCIAL TIMES

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Tuesday July 9 1996

## The state and the volunteers

Britain has a long and laudable tradition of voluntary effort. In culture and practice it is midway between the US and continental Europe: the state plays a significant social role, but has not crowded out charities and volunteers. For from it. More than 20m people do voluntary work, everything from scout clubs to lifeboat stations, and the charitable realm extends to health and education services regarded as core governmental responsibilities elsewhere.

In typically British fashion the complex policy issues raised by the voluntary sector have been left largely to custom, practice, a few quangos and the odd government steer. Recent years have seen significant, notably the creation of the National Lottery, providing massive semi-public funding for sports and welfare charities.

Yesterday's report of the commission on the future of the voluntary sector is therefore timely. Its recommendations are radical but mostly go with the grain of developments in the voluntary sector and are to be welcomed. The three central issues are the legal framework for charities, the definition of activities meriting charitable status, and the management structures of voluntary organisations.

On the first two, the commission proposes to replace the arcane legal framework with a "single, clear and flexible" legal category and a set of associated reforms. This would tackle obvious anomalies, notably the inadequate official oversight provided

for the charitable sector. The commission rightly calls for the charity commissioners - a regulatory and judicial body - to be supplemented by a Voluntary Sector Commissioner to keep charity law under review and a new appeal tribunal empowered to review the commissioners' judicial decisions. The commission is also right to highlight the unsatisfactory tax status of charities. Tax exemption should mean just that, yet the current rules result in many charities paying large VAT and local rates bills. On organisation, there is a strong case for allowing charities to establish themselves on a Companies Act model, as suggested by the commission. Because charities depend on volunteers and donations, that is no reason for them to be managed amateurishly. More problematic - but critical - is the definition of charitable status. Here the commission is disappointingly cautious. It recommends "a review" to establish "a mechanism to ensure the class of organisations able to claim charitable status keeps up with social change".

Also, new mechanisms will not resolve the controversial issues at stake. Why should Eton College but not sports clubs be granted charitable status? Why Oxfam but not Amnesty International? Parliament needs to debate from first principles the desirable "public goods" it wishes charities to advance. It cannot continue leaving such important, if vexed, questions to a remote quango and 19th century law.

## No cure for Aids

This week's international Aids conference in Vancouver is more optimistic in tone than any such occasion since the mid-1980s. Recent research has given hope that drug combinations will be able to keep symptoms of the disease under control almost indefinitely.

But the new optimism must not obscure the fact that, on a global basis, Aids remains one of the world's most serious public health issues. HIV, the virus that causes Aids, has already killed several million people - mainly in sub-Saharan Africa - and the UN programme on HIV/Aids says 22m more are infected.

Even in industrialised countries where most victims have been homosexual men and illegal drug users, complacency is not justified. Contrary to the dire predictions of some experts 10 years ago, no Aids epidemic has yet swept through the heterosexual population of the western world - but epidemiologists warn that the spread of HIV infection via unprotected sexual intercourse is still gathering momentum.

For the poorer regions of Africa, Asia and Latin America, where there is already a devastating Aids epidemic, the encouraging news brings a triple cocktail of HIV drugs seems to stop the virus replicating is almost irrelevant. The cost of such treatment - up to \$13,000 a year for each patient - will be a daunting burden for healthcare systems in the west; in the

third world it is unthinkable. The subsidy required to pay for large-scale treatment of Aids in the third world with western drugs would run to many billions of dollars a year - and would therefore be prohibitive, whether it came from governments or pharmaceutical companies. In any case, administration of the new drugs requires a sophisticated medical infrastructure that is simply not present in many regions.

Eventually, some time in the next century, the whole world will benefit directly from the scientific progress now being made in western laboratories. For the time being, however, efforts to halt the global spread of Aids will have to remain low-tech and low-cost.

That means more vigorous promotion of preventive measures such as the use of condoms. Evidence reported in Vancouver shows that safe-sex messages can get through. In Thailand, for example, the number of men visiting prostitutes has fallen by half and HIV infections are running at one quarter of the 1990 rate.

At the same time, the west must give more generous support to programmes for treating the infections that accompany Aids with cheap off-patent drugs. In particular, tuberculosis and Aids go hand in hand, and nothing would do more to reduce Aids mortality over the next five years than a successful campaign to reduce tuberculosis deaths through properly administered antibiotics.

## OAU dilemma

Two years after genocide in Rwanda, neighbouring Burundi is falling into a similar nightmare of ethnically motivated slaughter. In 1994, the international community was blamed for a belated response that failed to avert the Rwandan killings. Having intervened, the outside world could offer no long-term solution. This time, the western powers are staying on the sidelines in Burundi, refusing to commit troops to a country where they have little at stake.

The burden of responsibility for bringing peace therefore rests on the shoulders of the African leaders currently attending the Organisation of African Unity summit in Cameroon. But they are in a dilemma. If Africa fails to tackle the crisis in Burundi, prospects for ending conflicts elsewhere in Africa are bleak indeed. But an ill-timed, poorly supported and inadequately prepared intervention could do more harm than good, conceivably precipitating the anarchy it is trying to avert, and even turning a national conflict into a regional war.

The situations in Rwanda and Burundi are confusingly comparable, yet different. In the former, newly 1m Tutsis were systematically killed by a Hutu majority determined not to share power with the Tutsi minority. In Burundi, the Tutsi minority is in control of the army and civil service and refuses to share power with the Hutu majority. Once again, the world is con-

fronted with a tragedy it seems incapable of averting. The death toll in Burundi is running at 1,000 a month. The flood of refugees from both countries threatens to destabilise the region. After many months of negotiations led by former Tanzanian president Julius Nyerere, the heads of a peace plan have been taken shape. Regional leaders have proposed an African force comprising troops from Uganda, Tanzania and Ethiopia which would try to stop the killings.

The response from both Tutsi government and Hutu rebels since then leaves it far from clear that such a force would be accepted. Instead of keeping the peace between the two sides, it might have to be peace-making, or peace-enforcing. That would require a much larger number of troops, considerable financial resources and a long-term commitment.

There is some suspicion that the threat of international intervention is merely a ploy to force both sides to negotiate. The danger is that will not happen, and the OAU bluff will be called. If this African initiative is to succeed, it must be clear not only that both sides in Burundi welcome it. It must also win the support of President Mobutu Sese Seko of Zaire, where most Hutu guerrillas are based. Most important, its objectives must be clearly defined.

Only if African leaders at the OAU summit present a more convincing plan should the scheme go ahead.

## A firm hand on democracy

Algeria faces an uphill struggle in its latest attempt to reshape its political system after the violence of recent years, writes Roula Khalaf

When an Algerian opposition leader met President Liamine Zeroual recently and proposed that Algeria hold a "peace" conference, the president dismissed the idea. "They don't like to hear us speak of peace," explains the opposition leader, "because it assumes that what we have is a war."

Bolstered by his victory in presidential elections in November and confident that Islamist militants no longer pose a threat to his regime, Mr Zeroual has decided it is time for Algeria to move on from the crisis caused by the fighting of the past four years.

Pronouncing that the violence has become "residual", Mr Zeroual is attempting to reshape Algerian politics into a form that appears democratic while ensuring firm state control and continuing to exclude his Islamist opponents from the political process. Algeria survived the Arab world in 1989 with its decision to move from one-party rule to western-style multi-party democracy. More than 60 parties were established, an independent press flourished and economic liberalism began to take root. But it was a newly-formed Islamic party, the Islamic Salvation Front (FIS), that mesmerised Algerians by capitalising on their social and economic plight and on their disgust with the ruling National Liberation Front.

When the FIS won the first round of general elections in December 1991 and looked as though it would control the national assembly, the army seized control of the country to put an end to the democratic experiment.

The Islamists then took up arms, sinking Algeria into a state of chaos and raising fears in western capitals of a radical Islamist takeover which would spill over into the rest of north Africa and send hordes of immigrants knocking on the doors of Europe. More than 40,000 people have been killed in the conflict in a country that is one of Europe's leading suppliers of natural gas.

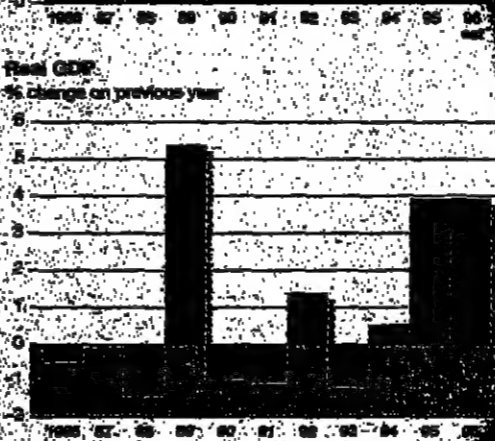
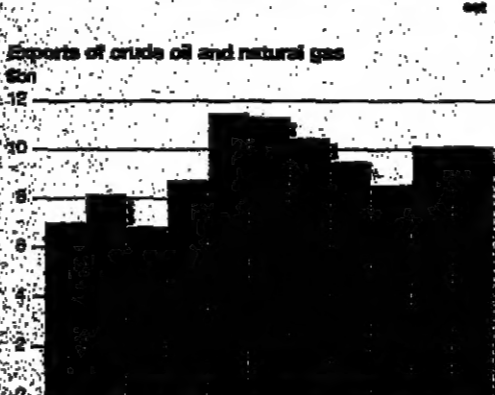
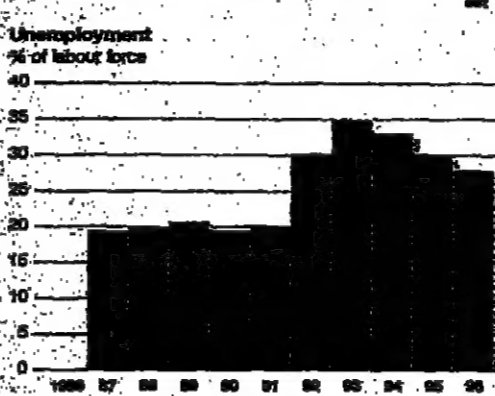
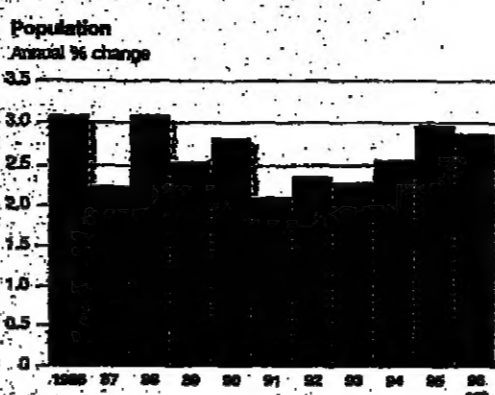
Now Mr Zeroual, a former army general, has declared that the country is ready for a fresh start, this time with much stricter rules of play. After a first round of talks with politicians and community leaders in April, he announced that Algeria would hold general and local elections in 1997. Before then, there would be a referendum on amending the Algerian constitution. Voters would be asked to approve proposals to prevent parties from using Islam to further their political ends and to set up a second chamber of parliament, some of whose members would be appointed rather than elected. The introduction of a system of proportional representation would also minimise the risks of a single party winning control of the national assembly.

Mr Zeroual has called for a second "nationalist" dialogue with legal opposition parties on Monday, which the government says would be followed by a national conference on the future of the country. But even the Algerian regime's moderate opponents are critical of Mr Zeroual's approach. They say he is wrong to assume that the violence has largely been dealt with.

Information is tightly controlled, but there are still regular bomb explosions and attacks on civilians and members of the security forces. Incidents such as the killing of seven French monks in the spring have highlighted the dangers of life in Algeria.

Not have the grievances that won the Islamic Salvation Front such

## Algeria: struggle for stability



widened support in 1991 gone away. With 60 per cent of Algerians aged under 25 and with the population growing at more than 2 per cent a year, the real challenge facing Algeria is found on every street corner.

They call them the "baillists" - the people who lean against city walls (*baill*). These are the disillusioned youths brought up in a failed education system and ruled for decades by a corrupt government that squandered the country's resources. Unemployment among the young is estimated at 65 per cent.

In an economy still controlled by a bloated state sector, hopes for revival rest on foreign investment, but potential investors are still being frightened away by the vio-

lence. Recent multi-billion dollar contracts with foreign companies to exploit Algeria's oil and gas reserves in the desert south (where projects are largely safe from Islamist attacks) provide funds for the government to pay its bills but create little employment.

Several opposition leaders say that the best way to reduce the violence is to include at least some FIS leaders in the political process. But discussions between the FIS and the government have repeatedly collapsed in the past four years, and the government has now decided to exclude them completely.

The regime has succeeded in splintering the FIS leadership, by jailing some leaders and forbidding others to speak in public. The party's reputation has also been dam-

aged by the reluctance of its leaders to condemn acts of terror. Ordinary people have been caught between the Islamist violence and brutal government repression.

The Islamic Salvation Army, the armed wing of the FIS, has been fighting the security forces on one front and the more radical Armed Islamic Group on the other.

In a sign of a change in strategy, FIS leaders in exile have made conciliatory statements towards the regime in recent months and have condemned specific terrorist acts targeting civilians. Released FIS leaders in Algeria, meanwhile, have been telling other parties that they are ready to try convincing armed groups to give up their military struggle.

But the Algerian government

says the FIS's change of heart is too late for the organisation to be included in negotiations. Officials say former FIS supporters should find a voice within other legal parties with Islamist leanings, such as Hamas, the party whose candidate in November's presidential elections won 25 per cent of the vote.

If Mr Zeroual's proposals on removing Islam from politics are adopted, Hamas will simply strip any mention of Islam from its name and adjust its political programmes to conform to the new rules.

Mr Zeroual claims that he wants the moderate Islamists and other parties to act as an effective alternative to the FIS and, in time, to convince the young men who took up arms of the futility of their struggle. But this will require the president - and the army which still wields the real power behind the scenes - to abandon their monopoly of political power. Otherwise the opposition parties will be seen merely as decorations that help to legitimise a totalitarian regime.

Mr Ahmed Attal, Algeria's foreign minister, insists that the aim of Mr Zeroual's initiatives is to strengthen the democratic process, but many Algerians remain sceptical about the president's intentions.

Some government actions sit oddly with professed democratic aims. For example, the continued muzzling of the independent press - the latest example of which was last week's suspension of French-language daily *La Tribune* - contributes to suspicion.

Opposition parties will have the chance to test Mr Zeroual's true intentions in the talks starting next week. As requested by Mr Zeroual, the parties have provided written comments on his proposals on amending the constitution.

But they admit that Mr Zeroual is holding the strongest cards. "We are facing a dilemma," says one opposition leader. "To take part in this process is to contribute to our own suicide, and not taking part will also suffocate us."

Mr Zeroual will do all in his power to create an institutional framework that gives his political allies - including at least part of the National Liberation Front - an advantage in the general elections, especially since he has no party of his own.

But if Mr Zeroual has any hope of one day returning Algeria to stability, diplomats say, he must also allow the opposition enough room to manoeuvre without government interference.

"In a society that is violently distrustful, in which memories of blood are too fresh, the divisions are too great to allow for any agreement among all sides that is based on trust," says a Western diplomat. "This is why Mr Zeroual has to accept enough changes in his proposals so that opposition parties are given enough guarantees to take part in a process without having to trust the authorities."

Algeria has passed the point where it can forever repress its Islamic militants with the sort of authoritarian (but internationally tolerated) system of government found in Egypt and Tunisia.

The violence has touched too many lives and the culture of confrontation runs too deep. If the regime tries to take the route of repression, a former government official says, "the only question then becomes, 'When will it all explode again?'"

## Murdoch's alien market

One of the great advantages of being a multi-media giant is the enormous opportunities to play different parts of your empire into one another.

That single-eyed American chairman, buying up the new summer blockbuster, *Independence Day*, will have noticed the ubiquity of Rupert Murdoch. Twenty-first Century Fox, his company, produced the movie. *Wall Street* features TV news clips of the alien invasion. The newscasters are not from CNN, ABC, CBS or NBC, the major US networks, but from Sky Television, Murdoch's channel in the UK, or Fox News, Fox's basic Murdoch network.

The truly significant insight even the conservative Murdoch might have missed is that the party affiliation of the heroic US president who takes to the skies to lead the successful aerial counter-attack against the alien ships is never disclosed, he is assumed to be a Republican. If for no other reason than that one of the black stars in the film confesses to having voted for the other candidate.

But Murdoch left the aliens, themselves severely alien, either because they were too ugly or perhaps because they were telepathic and therefore had no

need for the mass media. Murdoch, no friend of Washington, even when it is run by Republicans, might also be disappointed to hear that the DC audience did not cheer when the White House and Congress were fact-checked as reportedly has happened elsewhere in the country.

## Outgunned

Volker Rabe's heart must have melted a bit recently when Chancellor Helmut Kohl ruffled his defence minister's hair before a cabinet meeting.

Rabe, apparently designed to cheer up poor Volker, who has been having a bad time of it recently because his defence ministry has been sniped at by Theo Waigel, Bonn's hard-nosed finance minister who is looking for more savings.

But Kohl rarely dispenses affection so publicly - and yesterday it became apparent that nothing had really changed when Rabe's defence budget received another mauling from Waigel.

In order to make the humiliation a touch more palatable, Kohl has, however, assured his defence minister that his budget will rise gradually from next year's DM46.5bn to DM48.5bn in 2000.

That such assurances are worth less than the paper they are written on - if indeed they have been put into writing at all - must be abundantly clear to Rabe.

After all, back in the halcyon days of November 1994, just after Kohl had won his fourth election, he told Rabe that he would have DM49.5bn to spend every year on the Bundeswehr, together with fancy weapons projects designed to cement the famed Franco-German axis.

Funny, then, that Rabe should have just DM46.5bn to spend next year.

## Hub love?

It must be the seven-year itch and then some. KLM last week made renewed overtures to Northwest Airlines aimed at ending a row over who is boss of the *manche* first created in 1993. But as the Dutch airline had already called in the lawyers, the response from its Midwestern belle was not much more than a shrug of the shoulders.

More seriously, the American has taken to casting aspersions on the home background of the persistent European. Passengers bound for Amsterdam are being handed Northwest leaflets which paint the city in a distinctly unflattering light.

Keep handbags close to the body. Avoid photographing the red-light district. Drugs are widely available. It implies, advising women "against walking around the red-light district dry or night, even if accompanied". Even Northwest admits that last

exhortation is "worded more strongly than it needs to be".

The leaflet is being handed on a test basis to those departing from its squeaky-clean Minneapolis-St Paul hub on flights to code-shares with KLM. "I dare say if we did one for New York it would probably be quite a bit longer," acknowledges Northwest. But the fact that KLM is then referred to as the "erstwhile partner" kinda says it all.

## Light relief

If only all German visitors to the UK could be briefed by Barbara Schmitz, a 30-year habes of London on behalf of publishing house Bantam.

In an article written for an internal newsletter a couple of years ago - which is still regarded as essential reading for staff due to land in Britain - Schmitz advises learning four good short jokes by heart, "like a mantra". The material should not be anti-women, anti-foreigner or anti-British. A joke that makes fun of the Germans, however, will go down a treat.

In their heart of hearts, Britons believe the old cliché that Germans have absolutely no sense of humour and only seldom laugh. It is worth overcoming this prejudice.

As for the British joke is no laughing matter?

## Financial Times

## 100 years ago

New German Cable Company Cologne, 8th July. A new cable between Cologne has just been formed here, under the title of the Deutsche Seetelegraphen Gesellschaft (German Submarine Cable Company). The primary object of the company is to lay a cable between Germany and Spain, and eventually to extend it to the United States. The present share capital amounts to 3,500,000 marks. Reuter.

## 50 years ago

Bank to be Nationalised "The Netherlands Bank will be nationalised," Dr Louis J.M. Beel, the new Dutch Premier, told the Lower Chamber of the Dutch Parliament yesterday in his policy statement. Certain Dutch industries would also be nationalised if investigations showed this to be desirable. Dr Beel added, however, that the Government took the view that Government control would gradually have to give place to private enterprise and bodies vested with special power.

Some Clients Leave The annual report of the recently nationalised Bank of New Zealand stated that because of considerable opposition to nationalisation throughout the country, it was inevitable that the bank would lose a certain amount of business.

US carmaker seeks to take on small-car market

## GM names six dealers to sell Saturn in Japan

By Heig Simonian in London

Saturn, the successful US carmaker established by General Motors in the 1980s to meet the challenge of low-cost Asian competition, turned the tables on its foreign rivals yesterday by appointing its first six distributors in Japan.

The move marks the culmination of a strategy to develop Saturn sales abroad and demonstrate that US-built small vehicles can compete on price and quality with Japanese products in their home market.

The Saturn models will be the first right-hand-drive GM cars sold in Japan. GM said they would be available in 10 to 15 showrooms when sales start early next year, and it hoped to recruit more dealers to increase its network by the launch date.

"We would hope to have between 15 and 20 stores operating during the first half of 1997," said Mr Don Hudler, Saturn's president.

Saturn's Japanese subsidiary

said it was in talks with more than 30 potential companies and expected several to sign before the end of this year.

"We are convinced the high quality of Saturn cars, combined with friendly customer treatment and service at our Saturn retailers, will make a difference even for very discerning Japanese consumers," said Mr Keith Wicks, general director of Saturn Japan. Significantly, all but one of its first six dealer groups are independent companies. Only one, Nagoya Daihatsu, is affiliated with a Japanese carmaker, which holds a 30 per cent stake.

Another, Yawase, is a long-standing distributor of other GM vehicles in Japan.

This year Toyota started selling GM's Cavalier sedan under its own name but sales have been disappointing with only 5,154 registrations in the first six months against a 1996 target of 20,000 units.

The naming of the dealers follows a long-running campaign by Saturn to penetrate the Japanese

market. It started exporting to Taiwan, its only foreign market apart from Canada, in 1988 to develop its logistics and gain experience in selling to east Asia.

Mr Hudler said the company believed the time was now right to enter Japan, as consumer tastes were changing and motorists were looking for more choice.

Sales of foreign cars in Japan have risen sharply in recent months. However, US exports have generally failed to match the strong growth rates registered by European carmakers.

Although GM's exports soared by almost 150 per cent to 10,633 units in the first six months of this year, compared with the same period last year, Ford saw an increase of just 12.6 per cent to 8,125 for the period, while Chrysler sales declined by 8.2 per cent to 6,991. These mixed fortunes have cast strong doubts on whether the US Big Three will manage to meet their targets of exporting more than 100,000 vehicles each to Japan by the end of the century.

## French defence ministry admits to wiretaps

By David Owen in Paris

A new political scandal erupted in France yesterday after the defence ministry admitted ordering wiretaps on two senior aides to Mr François Léotard, the former defence minister and current president of the UDF, the junior partner in France's ruling coalition.

In a move that threatened to put relations in the coalition under severe strain, the ministry said the "interceptions" were for unspecified "national security" reasons.

It said the first tap began on July 11 1995 - about two months after the Gaullist Mr Jacques Chirac won the presidency. Both taps ended in October.

The admission followed reports in *Le Monde*, the left-leaning daily newspaper, that the telephone of several members of Mr Léotard's entourage were tapped by the Direction Générale de la Sécurité Extérieure, France's overseas espionage service.

The newspaper identified three of the officials who were subject to wiretaps. It speculated that the operation might have been linked to suspicions that money from arms sales to Saudi Arabia could have been channelled to supporters of Mr Édouard Balladur, the former prime minister.

Mr Balladur campaigned unsuccessfully for the presidency in the election won by Mr Chirac. Mr Léotard was a senior organiser of Mr Balladur's campaign. He succeeded Mr Valéry Giscard d'Estaing, the former president, as UDF head in April, fending off a challenge from Mr Alain Madelin, the former finance minister.

Mr Léotard last night demanded a public explanation for the wiretaps from Mr Alain Juppé, the French prime minister. He described the move as "as astonishing as it is unjust for military men or senior civil servants who have served their country with honour".

He called on the prime minister to acknowledge that "no reproach or fault with a bearing on national security had been established against these people" and that no political reasons could be used to justify "practices that do no honour to our democracy".

Mr Juppé's office defended the wiretappings but refused to explain why they were carried out. It said the action had been legal, strictly for national security reasons and approved by an independent national commission.

Yesterday's disclosures gave a fresh twist to a series of scandals over alleged illegal political funding, including of Mr Chirac's Gaullist RPR party.

Mr Chirac was yesterday in Qatar, having visited Saudi Arabia at the weekend.

## THE LEX COLUMN

### Reaching for the Sky

By finally linking up with Bavarian media mogul Mr Leo Kirch, Mr Rupert Murdoch's BSkyB has won an important prize: together, the two men look formidably positioned for future dominance of Germany's television screens. For a start, Mr Kirch's plans for digital pay-TV in Germany are already well-advanced, with 17 channels due to be launched later this month. His only rival - a bedraggled alliance of Bertelsmann, Canal Plus and Haves - is well behind. For another, as a partner the buccannery Mr Kirch looks much better suited to Mr Murdoch's style than stodgy Bertelsmann.

Moreover, Mr Murdoch seems to have cut a remarkable deal. BSkyB will get a 49 per cent equity stake in the Kirch venture, in marked contrast to Kirch's recent deal with Viacom in which no equity was exchanged. And it is having to pay nothing for the privilege.

Of course, BSkyB will have to bear its share of the venture's start-up losses. But even if this makes a nasty dent in BSkyB's juicy cashflows over the next few years, the long-term prospects look enticing. Germany is, after all, potentially the largest pay-TV market in Europe.

The big question is whether Mr Kirch and Mr Murdoch are likely to face any competition at all. Bertelsmann is unlikely to give up altogether. But its alliance still looks in deep disarray; yesterday's wistful statement that Bertelsmann "hopes for a return to greater mutual confidence" with its partner Canal Plus is hardly a promising sign. Of course, there is no guarantee that the Murdoch/Kirch partnership will not prove similarly flimsy. But Bertelsmann would be unwise to count on it.

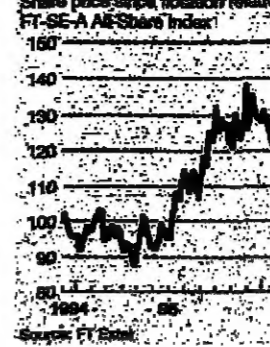
#### Airbus

Setting up Airbus as a proper company is a big step towards getting Europe's sluggish four-nation consortium airborne. In the face of increasing competition from Boeing and McDonnell Douglas of the US, Airbus desperately needs to improve its competitiveness. Mr Jean Pierson, its managing director, has publicly stated the need to cut costs by 20 per cent over the next few years. Competitive tendering and central buying of parts - impossible under the current legal structure - would get him a long way towards his goal.

Agreeing the principle is one thing. Thrashing out the details will be much more difficult - which is why it may take until 1998. The most straightforward solution would be to hand Airbus the manufacturing facilities of its

FT-SE Eurotrack 200:  
1728.3 (-8.7)

Share price index relative to the FT-SE-A All-Share Index



Source: FT Stock

four current shareholders. The snag is that British Aerospace's factories are efficient and profitable, whereas those of Aérospatiale and Daimler-Benz Aerospace are not.

A proper valuation would therefore leave BAE with a much bigger stake in the new company than its current 20 per cent. That would be difficult for the Germans and French to swallow politically.

A more elegant solution might be to construct Airbus as a sophisticated design house. It could then contract out work to the lowest-cost operators, be they shareholders or not. In the longer term, Asian manufacturers probably have an unbeatable cost advantage over Europeans, so it may make sense to bring them into new projects, like the 550-seat "super jumbo". At the very least, a more independent Airbus should be able to think such commercially-minded thoughts.

#### Grand Metropolitan

Grand Metropolitan's emergence as a potential bid victim, given the apparent interest of its largest competitor Guinness, is ironic. Under its trigger-happy former chairman Lord Shepherd, GrandMet would have been tipped as far more likely to bid for Guinness than vice versa.

Indeed, GrandMet would look better placed to gain the upper-hand in any contest. It has a better record on takeovers; it has the advantage of a fast-growing food business; it is further ahead in restructuring its spirits business; and it could achieve greater cost savings as a percentage of the cost of the bid.

Nonetheless, investors should not take the leaked report on a GrandMet bid as evidence that takeover activity

is coming to the sector. The report may demonstrate possible cost savings from spirits mergers, but these savings are insufficient to cover any bid premiums. This applies even to Allied Domecq, the weakest of the big four global spirits groups.

Of course, it is possible that Allied's new chairman could broach the subject of a friendly merger, but the attitude of its competitors seems to be that it is more profitable to beat it than eat it. They have been proven right so far.

Corporate activity may come to the sector, but it is likely to be more subdued. Joint venture distribution deals are one way to extract some merger benefits without the merger. GrandMet is under little pressure to pursue such deals, as it starts to reap the benefits of restructuring and increased marketing expenditure. Guinness is clearly somewhat hungrier.

#### Tomkins

Tomkins may no longer be fashionable, but it is never less than solid. Earnings growth of 7 per cent in a year when an extended US winter knocked £200m off lawnmower sales is no mean feat. Healthy cash generation underpinned a 15 per cent dividend increase at a time when Hanson and BTR are considering cuts.

Looking forward, the group has Gates to get its teeth into. As with most family-run companies, there is huge scope to improve returns: Gates' operating margin was only 4.3 per cent last year. Tomkins also believes it can extract £250m of working capital. At Ranks Hovis McDougall, bought in 1992, reorganisation costing £90m and subsequent investment have been financed with its own cash. Moreover, Gates adds a slice of growth to Tomkins' otherwise mature portfolio.

Compound turnover growth at Gates has been more than 8 per cent for the past three years and there are opportunities to sell more of its roller belts and hoses in Asia and Latin America. In the US, the group should take market share as carmakers convert from metal belts to rubber ones.

The shares deserve a market average rating, which suggests a 10 per cent improvement over the current price. But the management has made clear that a sharper focus, which could include disposals and a share buy-back, remains low on the agenda. It is difficult to see the shares fizzing while Tomkins remains an unrepentant conglomerate.

Additional Lex comment on Hanson, Page 21

## Bonn plans 2.5% cuts

Continued from Page 1

lin. However, the cost of servicing the federal debt is also set to rise to DM68.3bn from DM68bn. Mr Weigel's budget will be set in the context of slow real growth of 0.75 per cent this year with a pick up expected in the second half. Growth of between 2 and 2.5 per cent is expected in succeeding years.

The DM65.5bn of net borrowing projected for 1997 will be about DM7bn higher than anticipated a year ago. According to the draft, the federal borrowing requirement will not fall below DM50bn until 2000, when it should total DM46.9bn.

## Airbus to be one company

Continued from Page 1

the drawback to the existing structure is the way partner companies are given manufacturing work regardless of their efficiency or production costs. Aérospatiale and Dasa each own 37.9 per cent. BAE has 20 per cent and Casa 4.3 per cent.

Yesterday's decision by the Airbus supervisory board follows a report by a committee headed by Mr Edzard Reuter, former chairman of Daimler-Benz.

The supervisory board, also chaired by Mr Reuter, said it expected the partner companies to reach a memorandum of understanding by the end of the year. A decision on the precise form the company would take would be reached by 1999.

## Turkey confirms Erbakan as first Islamist premier

By John Barham in Ankara

Turkey's parliament yesterday confirmed in office the country's first Islamist prime minister but not before one deputy threw a punch during voting after a short but rowdy debate.

The coalition between Mr Necmettin Erbakan, leader of the Islamic party Refah, and the centre-right True Path party of former prime minister Mrs Tansu Ciller was approved by 13 votes in the 550-member parliament.

Voting was interrupted briefly when Mr Emre Gönensay, a former foreign minister, was punched by a True Path party colleague for voting against the coalition.

After the vote Mr Erbakan said: "I believe there will be a new start for Turkey. We will work day and night with the spirit of worship. Our citizens will be happy they have been saved from chaos. God willing, this government will work for a long time."

Mrs Ciller defended her controversial decision to support the first Islamic premier in the 73-year history of the Turkish republic. "We have chosen the difficult but correct path," she said, adding that there had been a choice between deadlock and "democratic opening".

Yesterday's vote follows a period of political confusion since Mrs Ciller's coalition government collapsed in September. Inconclusive general elections were held

in December and since then the country has been run by a succession of caretaker prime ministers and a short-lived conservative coalition that fell in June.

Few political analysts believe Mr Erbakan's government will be long lasting. Mr Hasan Cemal, senior political columnist on the pro-Ciller newspaper *Sabah*, predicted it would last until spring and would carry out "a populist cycle of policies". He expects Mr Erbakan will call elections early next year in the hope of winning a majority.

"Refah's primary [objective] is to show people it was possible for an Islamist to become prime minister," Mr Cemal said. "A kind of taboo has been broken."

Some analysts had expected the secularist military to prevent Refah taking office. Commentators believe Refah will avoid any direct challenge to the secular establishment, such as shifting the country's traditionally pro-western foreign policy. They expect the Islamists to install supporters in government departments and gradually move towards pro-Islamic policies.

But fears are growing that Mr Erbakan may adopt a more aggressive stance towards Greece, Turkey's traditional rival, to bolster his popularity.

Some analysts expected Mrs Ciller's alliance with Refah would split her party, but only seven MPs have quit True Path and 14 others refused to back her in yesterday's vote.

### FT WEATHER GUIDE

#### Europe today

Cool air will move across the Benelux towards the Alps in the wake of an active depression over the Baltic Sea. As a result, temperatures will remain low over northern France, the Benelux and Germany. Central France will have rain. The Mediterranean will be mainly sunny and dry. Temperatures in southern Spain, Greece and Turkey will exceed 35C. A cold front over eastern Europe will be preceded by thunderstorms. Southern Sweden and Finland will have rain and winds will reach 60 kph.

#### Five-day forecast

Temperatures over central Europe are expected to rise in the second part of the week, but the British Isles and Scandinavia will remain unsettled with cloud and rain. Sweden and Finland will have persistent rain over the next few days. Spain and Greece will continue warm but thunder showers are likely. Italy will continue cool for most of the week but temperatures will rise later in the week.

#### TODAY'S TEMPERATURES

Location	Max	Min	Weather
Abu Dhabi	34	24	cloudy
Accra	31	24	cloudy
Algiers	29	19	cloudy
Amsterdam	17	10	cloudy
Athens	35	25	cloudy
Atlanta	34	24	cloudy
B. Aires	12	5	cloudy
B. Ham	21	14	cloudy
Bangkok	36	26	cloudy
Barrona	24	14	cloudy
Beijing	26	16	cloudy
Belfast	19	12	cloudy
Belgrade	27	17	cloudy
Bombay	31	21	cloudy
Buenos Aires	18	11	cloudy
Budapest	19	12	cloudy
Chengdu	21	14	cloudy
Chongqing	28	18	cloudy
Cairo	38	28	cloudy
Cardiff	19	12	cloudy
Casablanca	24	14	cloudy
Chicago	17	10	cloudy
Colombo	27	17	cloudy
Dakar	20	13	cloudy
Dallas	33	23	cloudy
Doha	34	24	cloudy
Dubai	35	25	cloudy
Dublin	18	11	cloudy
Dubrovnik	28	18	cloudy
Edinburgh	18	11	cloudy
Faro	33	23	cloudy
Frankfurt	20	13	cloudy
Geneva	22	15	cloudy
Glasgow	19	12	cloudy
Hamburg	18	11	cloudy
Helsinki	18	11	cloudy
Hong Kong	32	22	cloudy
Honolulu	28	18	cloudy
Istanbul	33	23	cloudy
Jakarta	32	22	cloudy
Jersey	18	11	cloudy
Karachi	37	27	cloudy
Kuala Lumpur	32	22	cloudy
Las Palmas	26	16	cloudy
Lima	17	10	cloudy
Lisbon	22	15	cloudy
London	18	11	cloudy
Luxembourg	18	11	cloudy
Lyon	18	11	cloudy
Madrid	24	14	cloudy
Madrid	24	14	cloudy
Manila	32	22	cloudy
Melbourne	18	11	cloudy
Mexico City	20	13	cloudy
Miami	31	21	cloudy
Montreal	18	11	cloudy
Moscow	17	10	cloudy
Murcia	37	27	cloudy
Nairobi	28	18	cloudy
Naples	25	15	cloudy
Nassau	32	22	cloudy
New York	26	16	cloudy
Nice	25	15	cloudy
Nicosia	32	22	cloudy
Osaka	28	18	cloudy
Paris	18	11	cloudy
Perth	28	18	cloudy
Prague	18	11	cloudy
Rangoon	32	22	cloudy
Riyadh	38	28	cloudy
Rio	27	17	cloudy
Rome	28	18	cloudy
S. Francisco	13	6	cloudy
Seoul	24	14	cloudy
Singapore	31	21	cloudy
Stockholm	18	11	cloudy
Stuttgart	18	11	cloudy
Sydney	26	16	cloudy
Taipei	31	21	cloudy
Tel Aviv	35	25	cloudy
Tokyo	28	18	cloudy
Toronto	25	15	cloudy
Vancouver	18	11	cloudy
Verona	32	22	cloudy
Vladivostok	18	11	cloudy
Warsaw	18	11	cloudy
Washington	18	11	cloudy
Wellington	18	11	cloudy
Winnipeg	18	11	cloudy
Zurich	18	11	cloudy

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

We can't change the weather. But we can always take you where you want to go.

**Lufthansa**

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**DM1,200,000,000**
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